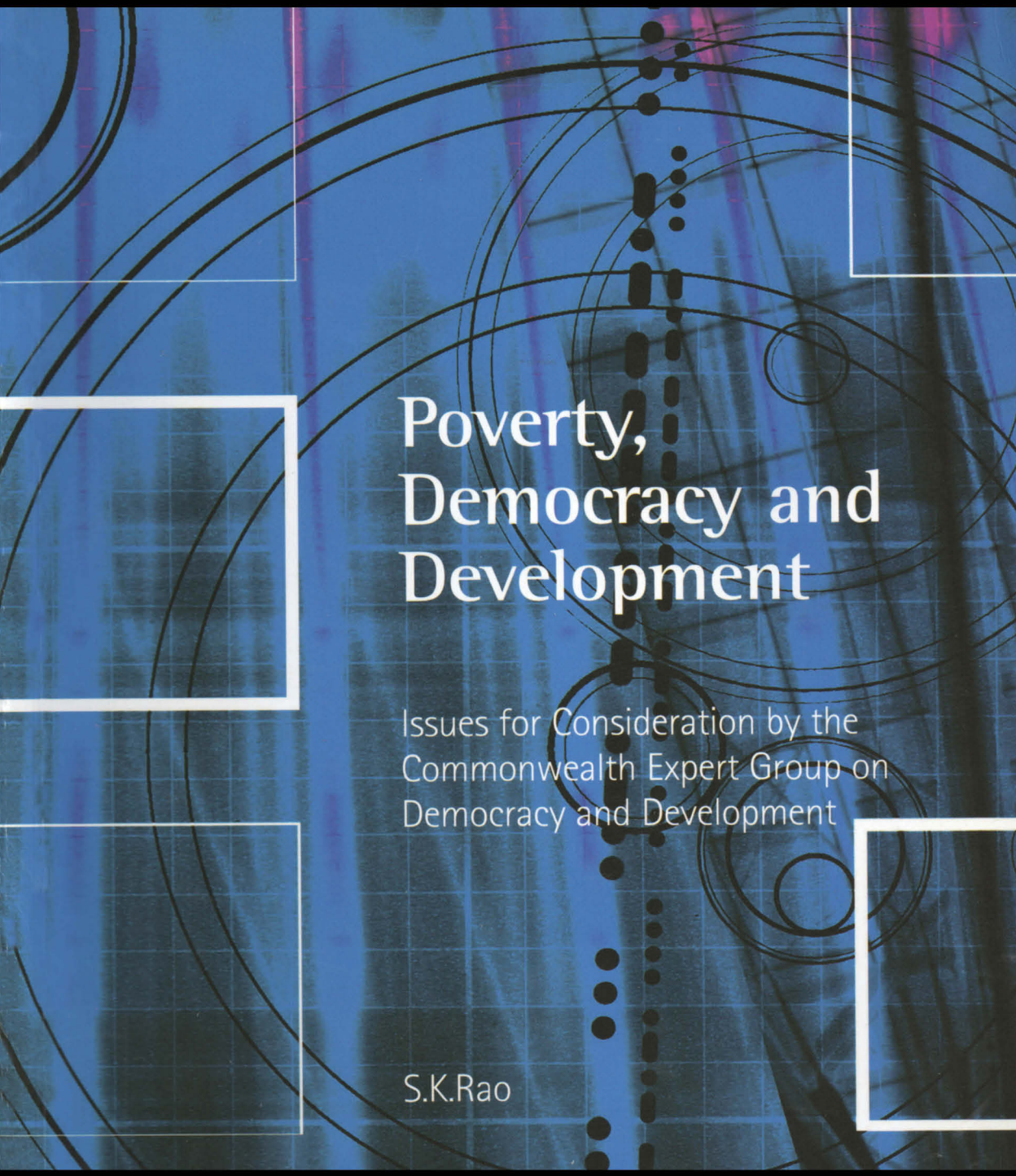
Poverty,
Democracy and
Development
Issues for Consideration by the
Commonwealth Expert Group on
Democracy and Development
S.K.Rao

Poverty, Democracy and Development

Issues for Consideration by the Commonwealth Expert Group on Democracy and Development

S. K. Rao

THE COMMONWEALTH SECRETARIAT

Commonwealth Secretariat
Marlborough House
Pall Mall, London SW1Y 5HX, United Kingdom

Designed and published by the Commonwealth Secretariat
Printed in Britain by Formara Ltd.

Wherever possible, the Commonwealth Secretariat uses paper sourced from sustainable forests or from sources that minimise a destructive impact on the environment.

ISBN 0-85092-799-4

Web site: http//www.thecommonwealth.org

Contents

1	**Introduction**	1
A	**Poverty and the Challenges Confronting Poor Country Democracies**	3
2	**Poverty: How Widespread Is It?**	5
2.1	The Concept of Poverty	5
2.2	Poverty: The Evidence	5
2.3	Is the World on Track in Reducing Poverty	8
3	**New Challenges Confronting Democracies in Combating Poverty**	10
3.1	The Spread of Conflicts, Collapsed States and Terrorism	10
3.2	Challenges of Transition from Authoritarian Rule to Democratic and Market Freedoms	12
3.3	Globalisation	13
3.4	HIV/AIDS	16
3.5	The Degradation of the Environment	17
B	**Support for Democracies for Combating Poverty**	19
4	**Tackling Conflicts, Failed States and Terrorism**	21
4.1	Why Do Conflicts Occur? What Causes the Phenomenon of 'Failed States'?	21
4.2	The Adequacy of Current International Arrangements	23
4.3	Terrorism	25
5	**Deepening Democracy and Good Governance**	27
5.1	The Links between Democracy, Good Governance and Poverty Reduction: The Argument	27
5.2	Empirical Evidence	28
5.3	The Primacy of Democracy	30
5.4	Deepening Democracy	31
5.5	The Quality of Economic Growth and Democracy	32
5.6	Corruption and Failure of Good Governance	33
5.7	Co-opting the Elites for Change	35
6	**The Relationship between Economic Growth and Poverty Reduction**	37
7	**Participatory Processes and Empowering the Poor**	40
8	**The Washington Consensus and Pro-poor Economic and Social Policies**	42

9 Trade Liberalisation 44
9.1 The Sequence of Reform 44
9.2 Why the Present Trade Regime Hurts the Poor 45

10 Aid and Debt Cancellation 48
10.1 Official Development Assistance 48
10.2 Other Sources of Aid 49
10.3 Aid Effectiveness and the Allocation of Aid 50
10.4 Debt Forgiveness 51

11 Reform of the Financial Architecture 54

12 Pro-poor Health Policies 56

13 Pro-poor Education Policies 58

14 New Technologies 60

15 Global Governance 62
15.1 Strengthening Global Governance 62
15.2 Decision-making Processes 63
15.3 Transparency and Accountability 64

C Strategies for Action 67

16 Winning Support for Global Action 69
16.1 The Strategic Interests of the International Community 69
16.2 Win–Win Approaches 70
16.3 Socially-responsible Business 72

17 The Role of the Commonwealth 74

D Summary of the Issues 75

18 Issues for the Consideration of the Expert Group: A Summary 77

Annexes
A The Harare Commonwealth Declaration 79
B The Fancourt Commonwealth Declaration on Globalisation and People-Centred Development 83
C The Millennium Development Goals 86
D What is the Washington Consensus? 87

References 89

1

Introduction

The purpose of this paper is to outline some possible issues facing the Commonwealth Expert Group on Democracy and Development, with a view to facilitating discussion at its first meeting.

The Mandate

The Group was established by the Commonwealth Secretary-General in pursuance of the following mandate by Commonwealth Heads of Government at their meeting in Coolum, Australia, in March 2002:

> *Recognising the links between democracy and good governance on the one hand, and poverty, development and conflict on the other, we call on the Commonwealth Secretary-General to constitute a high-level expert group to recommend ways in which we could carry forward the Fancourt Declaration. This group should focus on how democracies might best be supported in combating poverty, and should report to the next* CHOGM [Commonwealth Heads of Government Meeting].

In interpreting this mandate, the Group may wish to recall that:

- While the Commonwealth recognises that its fundamental political values and sustainable development are interdependent and mutually reinforcing, and that economic and social progress works to enhance the sustainability of democracy, in its Harare Commonwealth Declaration (Annex A) it is committed to democracy and the elimination of poverty as important goals in their own right.
- The Fancourt Commonwealth Declaration on Globalisation and People-Centred Development (Annex B), adopted by Commonwealth Heads of Government in November 1999, calls for the forces of globalisation to be channelled for the elimination of poverty and the empowerment of human beings to lead fulfilling lives.

This note has four parts. Part A reviews the extent of poverty and outlines some of the particular challenges confronting democracies in the current historical situation. Part B discusses the links between conflict, poverty and development on the one hand and democracy and good governance on the other, and possible ways through which support may be provided to democracies in combating poverty. Part C discusses possible strategies for winning global support and the role of the Commonwealth in mobilising such support. Part D provides a summary of issues for the consideration of the Expert Group.

A

Poverty and the Challenges Confronting Poor Country Democracies

This Part deals with the concept of poverty, its dimensions and whether the world is on track to fulfil the Millennium Development Goals (Section 2); it then proceeds to outline some particular challenges confronting poor country democracies in contemporary times which, it is argued, are important in understanding and discussing how these countries might be best supported in combating poverty (Section 3). These challenges include the spread of conflict, problems of transition to democratic and market freedoms, globalisation, HIV/AIDS and the degradation of the environment.

2

Poverty: How Widespread Is It?

2.1 The Concept of Poverty

How widespread is poverty and what are its trends? These, it appears, are not easy questions to answer either at a conceptual or statistical level. Until recently, poverty was understood mainly in terms of inability to afford a minimum level of living – i.e. the poor were those who fell below a certain level of income. While this is still considered an overarching measure of poverty – the World Bank and the UNDP, for example, compile statistics on the number of people living on less than $1 a day (the extremely poor) and $2 a day (the poor) – it is now accepted that 'income poverty' does not fully reflect poverty as it is widely understood. Amartya Sen, winner of the Nobel Prize for economic, whose work has inspired the UNDP *Human Development Reports*, has argued that poverty should be understood as lack of substantive freedoms – the capabilities – to choose a life one has reason to value. If such a view is accepted, the lack of opportunity for girls to go to school because of social discrimination, for example, would constitute a dimension of poverty. Amartya Sen says:

> ... in analyzing social justice, there is a strong case for judging individual advantage in terms of the capabilities that a person has, that is, the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value. In this perspective, poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty.
>
> Amartya Sen (1999), p. 86

The capabilities referred to, then, need not be just material; the political freedoms, the sense of security that individuals enjoy – all these non-material capabilities also properly constitute capabilities. If such a perspective is accepted, the dichotomy between economic and political freedoms – for example the idea of treating poverty and democracy as distinct categories of well-being – becomes untenable.

2.2 Poverty: The Evidence

In answering the question 'how widespread is poverty and what are its trends?' we are thus confronted with the rather difficult problem of capturing the many dimensions of poverty and their measurement. These difficulties are real. How does one capture the various capabilities that affect peoples' choice about how they want to live? The Human Poverty Index (HPI) and the other indices – the Gender-related Development Index

(GDI) and the Gender Empowerment Measure (GEM), compiled by the UNDP – go beyond income poverty and have greatly extended our understanding of how different countries are performing in terms of those indices. The *Human Development Report 2002*, which is devoted to the theme of deepening democracy, draws on various indicators of governance and democracy, many of them subjective, and shows how different countries stand in relation to each other in terms of these indicators. The indices do us a signal service by going beyond the narrow conception of poverty and they enable countries to gauge how they stand in the international league table. But they do not help us to answer our question: if we took all the people in the world as constituting one country, they would not tell us what proportion of people are living in poverty, defined in the broadest sense *à la* Sen. This is because of problems of lack of objective data at an individual level and the methodological problems of summation.[1]

Given these difficulties, perhaps one way of capturing a sense of the extent of poverty in the contemporary world is to review it in terms of the Millennium Development Goals (MDGs) adopted by world leaders at the UN General Assembly in September 2000. This approach has the additional merit of viewing the depth of the problem in terms of the goals that the global community at the highest political level has already agreed. It will be recalled that world leaders, in addition to declaring their support for freedom, democracy and human rights, set eight goals for development and poverty eradication, to be achieved by 2015. In broad terms, they are:

- Eradication of extreme poverty and hunger;
- Universal primary education;
- Gender equality and the empowerment of women;
- Reduction of child mortality;
- Improvement in maternal health;
- Combating HIV/AIDS, malaria and other diseases;
- Environmental sustainability;
- Development of a global partnership for development.

Of the above eight goals, the first seven might be considered as directly constituting dimensions of poverty; the last may be seen as a means of addressing them. (For a statement of the specific goals adopted by world leaders, see Annex C.)

If poverty is viewed through the prism of the MDGs, what then is the evidence of its extent and trends? Evidence compiled by the United Nations shows that:

- In 1999, 2.8 billion people lived on less than $2 a day (the poor), with 1.2 billion of them barely surviving on less than $1 a day (the extremely poor). Compared to 1990,

the number of extremely poor people fell only slightly, despite a significant reduction in East Asia (including China) and the Pacific, from 452 million to 260 million. In sub-Saharan Africa, the number of people living in extreme poverty increased from 242 million in 1990 to 300 million in 1999, and constituted nearly half the total population, the highest ratio of all regions. The proportion of the extreme poor fell in South Asia, but because of population growth, the absolute number of poor changed little. There is thus deep income poverty in the world – one in four or five persons was extremely poor in 1999 – and poverty has deepened in sub-Saharan Africa.

- In 50 countries with almost 40 per cent of the world's population, more than one-fifth of children under the age of five are underweight. Further, it is estimated that in 1997–99, some 815 million people were undernourished, 95 per cent of them in developing countries.

- Of the 680 million children of primary school age, 113 million – 17 per cent of the total – are not in school. In sub-Saharan Africa, South Asia and the Arab states, despite significant progress, four out of ten adults cannot read or write.

- Of the world's estimated 854 million illiterate adults, 544 million – two-thirds of the total – are women; and of the 113 million children not in primary school, 60 per cent are girls. Around the world, there are an estimated 100 million missing women – half of them in India alone – who would be alive but for infanticide, neglect or sex-selective abortions.

- Every year about 11 million children die of preventable causes, often for want of simple and easily provided improvements in nutrition and sanitation, and maternal health and education.

- By the end of 2000, almost 22 million people had died from AIDS, 13 million children had lost their mother or both parents to the disease, and more than 40 million people were living with the HIV virus – 90 per cent of them in developing countries and 75 per cent in sub-Saharan Africa. In four countries – Lesotho, Swaziland, Zimbabwe and Botswana – one out of every three adults or more carries the HIV virus. There are warnings that Asia is on the verge of an epidemic.

- Every year, there are more than 300 million cases of malaria, 90 per cent of them in sub-Saharan Africa. And every year, 60 million people are infected with tuberculosis.

- Carbon dioxide emissions have increased dramatically – to more than 6.6 billion tons in 1998, up from 5.3 billion in 1980. But 165 countries (including the US), responsible for 89 per cent of global emissions, have yet to ratify the Kyoto Protocol which aims at reducing these omissions. More than 250 million people living off the land are directly affected by desertification.

- 1.1 billion people lack access to safe water, and 2.4 billion do not have access to any form of improved sanitation services. About 4 billion cases of diarrhoea occur each year, leading to 2.2 million deaths, predominantly among children – representing 15 per cent of child deaths in developing countries.

These facts show that deep poverty exists in the world, and is particularly acute in sub-Saharan Africa.

But the facts above do not cover political freedoms, the rule of law and other indicators of liberty which also are material in measuring the depth of poverty, as understood in the wider sense defined by Sen – and they are thus an incomplete statement of the lack of development in the world. While the *Human Development Report 2002* does, for the first time, provide indices of democracy and good governance by country,[2] it is not possible from its data to arrive at an estimate of the proportion of people living in a state of un-freedom in the world as a whole. What we know is that in the last two decades, some 81 countries took steps towards democratisation; but the movement is far from complete or sustained. Today only 41 of these 81 countries are considered to be functioning democracies. A significant proportion of people – including those in such large countries as China and Pakistan – currently live under dictatorial or authoritarian regimes. (We discuss the question of democracy and good governance in Section 5 below.)

2.3 Is the World on Track in Reducing Poverty?

Is the world on track in fulfilling the MDGs? The *Human Development Report 2002* suggests that while 55 countries, with 23 per cent of the world's people, are on track to achieve at least three-quarters of the MDGs, 33 countries with 26 per cent of the world's people are failing on more than half; especially extraordinary efforts will be needed in sub-Saharan Africa. It estimates that a growth of 3.7 per cent in per capita income is needed to reach the goal of halving income poverty; yet in the 1990s only 24 countries – including China and India – have achieved such growth and 130 countries, with 40 per cent of the world's people, are not growing fast enough. The latter include 52 countries that actually had negative growth in the 1990s. Twenty of the sub-Saharan African countries, with half the population of that region, are poorer today than they were in 1990.

Progress in regard to other MDGs is also not on track in several countries: 40 countries with more than 28 per cent of world's population are not on track in regard to reduction of hunger; 25 countries with 32 per cent of world's population are not on track in regard to improving access to clean water; and 85 countries with more than 60 per cent of the world's population are not on track in regard to the goal of reducing child mortality.

Mark Malloch Brown, Administrator of the UNDP, reaches the following overall conclusion:

> ... at current trends, a significant portion of the world's states are unlikely to achieve the Millennium Development Goals, including the overarching target of halving income poverty by 2015. Many countries are poorer than they were 10, 20 and in some cases 30 years ago. HDR (2002), p. 5

Reducing poverty thus continues to be a great challenge to humanity.

3

New Challenges Facing Democracies in Combating Poverty

It is possible to argue that poor democracies are confronted with rather new challenges because of certain special historical factors prevalent today; one may identify the following:

1. The spread of conflicts, the phenomenon of collapsed states and terrorism;
2. Challenges of transition from authoritarian rule to democratic and market freedoms;
3. Globalisation;
4. HIV/AIDS;
5. The degradation of the environment.

3.1 The Spread of Conflicts, Collapsed States and Terrorism

A remarkable feature of the post-Cold War period is the marked upsurge in intra-state conflicts. The Stockholm International Peace Research Institute (SIPRI) reports that in the 12-year period 1990–2001 there were 57 different major armed conflicts in 45 different locations of the world.[3] All but three of these were internal. Almost all these conflicts have occurred in developing countries, located mainly in Africa.

Despite their intra-state nature, few of the conflicts existed in isolation: they were often influenced by external actors. In most cases, the supply of military material by state and sub-state actors and overt military intervention by states served to prolong and intensify the conflicts. Several of the intra-state conflicts have also spilled over international borders; of the 15 most deadly conflicts in 2001, for example, 11 spilled over international borders. As SIPRI notes, most commonly they constituted a threat to the stability of the neighbouring states through the burden of refugees, cross-border movement of rebels, and the undermining of legitimate economic and political structures by the illicit trade in resources and arms.

Not only were most of the recent conflicts intra-state in nature – albeit with significant cross-border spill-over effects; they also seem to last longer. In a study of 52 conflicts since 1960, a recent World Bank study found that wars started after 1980 lasted three times longer than did those beginning in the preceding three decades.[4] Eleven of the 15 conflicts in 2001 – that caused more than 100 or more deaths – have lasted for eight or more years.[5] These conflicts seem to acquire their own internal dynamic, making them intractable. The parties in conflict usually supported their military efforts through the sale of minerals, timber and narcotics and through remittances from abroad.

Conflicts and Poverty

It is not difficult to understand how this growing incidence of conflicts results in deep and stubborn levels of poverty in many countries. In the absence of security, farmers cannot grow crops, businesses cannot invest and traders cannot hold stocks and trade. As *The Economist*[6] has reported, in eastern Congo, which is in strife, nobody wants to raise cattle, because marauding soldiers steal them. Once a nation descends into conflict and violence, its people focus on immediate survival rather than on the longer term.

Conflict leads to internal displacement of people (at a conservative estimate, some 22 to 24.5 million people are presently displaced within their own countries, as a result of civil conflict, civil unrest or persecution),[7] refugees seeking shelter in neighbouring countries, and a loss of social capital, traditional skills and capacity for food production and other economic activities. Such countries also become breeding grounds for international terrorism.

By destroying fragile institutions of governance and causing displacement of people, flight of skills and deep social wounds that take time to heal, conflicts create a vicious cycle of poverty and strife. Large-scale conflict thus leads to a decline in incomes and growth, and especially to a decline in food production per head and a rise in hunger.

Failed States

The contemporary world has witnessed not only an increase in internal conflicts; the phenomenon of a complete collapse in central authority, with institutions of government ceasing to function for one reason or another, has also become more frequent. Failed states such as Afghanistan, Cambodia, Liberia and Somalia have been the settings for some of the worst humanitarian disasters in recent years. Sierra Leone, a member of the Commonwealth, has just emerged from years of violence in which the central government was unable to maintain law and order because of a particularly brutal rebel movement. Collapsed states pose difficult issues of international law, and the poor are the first to suffer great tragedies in those situations.

Terrorism

The events of 11 September 2001 have brought out dramatically the new threat of terrorism that envelops rich and poor countries alike. Terrorist networks have an insidious way of working within democratic societies and subverting democratic institutions. They make use of the democratic space to extend their networks, participate in the organised economy, and develop linkages with established businesses and political parties. Like a cancer, they can ruin the body politic.

Terrorism is an additional challenge to poor country democracies in tackling poverty: by reducing global growth prospects and financial flows, it alters the global economic environment for poor country growth; by enhancing insecurity, it undermines investment at national level; and by diverting precious resources into combating terrorism, it

limits public investment. In some cases, by criminalising politics and fanning group and communal conflicts, it qualitatively affects peace and democracy.

3.2 Challenges of Transition from Authoritarian Rule to Democratic and Market Freedoms

The 1980s and 1990s were marked by a growing acceptance and movement towards political and economic freedoms simultaneously. The collapse of the Soviet Union has both inspired and fuelled this trend. It can be argued that the countries in transition – and these are not only the countries of the former Soviet Union and Eastern Europe – are faced with particularly historic challenges: they are under the imperative of moving rapidly towards the new order, but often lack either the institutional or human capacity to implement change or create the well-developed civil society and the free media that are a necessary complement of these freedoms. Parliamentary traditions, inclusive political processes, market institutions and the associated legal regulatory regimes take time to build. Administrative law that respects the political independence of the civil service and protects it from the arbitrary interference of political leaders, financial and accountancy standards and entrepreneurial classes that learn to operate within legitimate frameworks of law – which are all essential in making the new freedoms real – cannot be manufactured overnight: they take time to get established. The problems of transition are well illustrated in the experience of many countries who have found that:

- The opposition was often marginalised, as no parliamentary traditions had developed in regard to its role;
- The lack of well-established property rights meant that market institutions cannot function;
- The process of privatisation became flawed as adequate legal and regulatory safeguards were missing, resulting in instances of asset stripping and flight of capital (as, for example, in Russia), and the creation of new monopolies that are much more damaging to public welfare;
- Non-performing assets have burgeoned in the financial sector and financial fraud has flourished due to lack of adequate financial skills, standards and codes.

Beyond such limitations of political, human and institutional capacities that countries in transition face, it can be argued that they also have the difficult task of dealing with the pent-up expectations for improved living that come with change – expectations that are fuelled by the knowledge of wide and rising absolute disparities between their own levels of living and those of people living in prosperous countries. The desire to see an immediate change, but the lack of means to achieve it, imposes considerable strain on political and economic processes. For example:

- Dissatisfaction with government leads to an anti-incumbency factor in elections, with the result that political parties become populist in their agendas, undermining sound government;
- Popular dissatisfaction and the associated lack of political stability may often result in coalition governments becoming the norm, and it is sometimes the case that coalition politics undermine cohesion and unity of purpose in government. (It has been observed, for example, that fiscal deficits tend to be larger under coalition governments);
- The gap between expectations and reality leads to a drain of precious skills – for example those of nurses, teachers, IT engineers, doctors and accountants – facilitated by new freedoms of movement and access to information. This in turn has the effect of enhancing salary and wage inequalities as firms try to compete for these precious skills which are in short supply;
- Internal and international demonstration effects erode citizenship values as elites emulate rich country life styles, creating a sense of frustration and injustice on the part of those who are left behind.

It can be argued that these constitute new historical challenges that the presently mature democracies and industrialised countries escaped in their own development.

3.3 Globalisation

It is widely agreed that globalisation has shifted the context for the industrial as well as for developing countries. Does globalisation make the task of poverty reduction less or more difficult?

Several analysts have argued that the success of East Asian countries in the last quarter century in reducing poverty shows the positive potential of globalising forces to help the poor. The new technologies, shrinking distances, the reduced cost of transport and communications, and the liberalisation of markets for goods, services and capital, it is argued, open immense possibilities for the elimination of poverty.

However, some argue that these expectations have not been realised. Joseph Stiglitz, a Nobel Prize winner in economics and former Chief Economist of the World Bank, says: 'to many in the developing world, globalisation has not brought the promised benefits'. To quote him further:

> A growing divide between the haves and have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day. Despite repeated promises of poverty reduction made over the last decade of the twentieth century, the actual number of people living in poverty has actually increased by almost 100 million. This occurred at the same time that world income actually increased by an average of 2.5 per cent annually. Stiglitz (2002), p. 5

The fact that, in a period of globalisation, the number of the absolute poor in the world has not declined, while disappointing in itself, does not mean that globalisation is the cause of this failure; or that all the success of some countries in reducing poverty is the result of globalisation. We also know that while millions were being lifted out of poverty, population growth meant that many more were being added to the ranks of the poor.

Many people believe that globalisation has indeed helped to reduce poverty. As Martin Wolf of the *Financial Times* puts it: 'Evidence suggests the 1980s and 1990s [the period when globalisation had gathered force] were decades of declining global inequality and reductions in the proportion of the world's population in extreme poverty.'[8] Further, dividing countries into two groups – those that were globalising and those that were not – the World Bank, in a recent study,[9] argued that:

- The new globalisers – those that have seen reductions in their tariff rates and increases in their trade to GDP ratios, which include China and India, the two most populous countries – with a population of around three billion, have experienced large-scale poverty reduction: during the 1990s, the number of their people who were living in poverty fell by 120 million. Within the globalising states, integration has not led to greater income inequality.

- The countries who participate less in trade today than they did 20 years ago, with a population of around 2 billion, have been experiencing stagnation in incomes and rising poverty. Some are failed states.

- Since 1980, the overall number of poor people has at least stopped increasing, and has actually fallen by an estimated 200 million. Since 1980, world inequality has also stopped increasing, and may have started to fall.

The Canadian-based Fraser Institute[10] makes a similar point. The Institute, in its *Economic Freedom of the World Report* of 2002, measures economic freedoms in 123 countries and ranks each country according to how seriously various factors are taken, including small government, low taxes, protection of private property from expropriation, monetary debasement and the ability to trade freely with other countries. It finds that:

- The poorest fifth in all the countries studied – be they laisser-faire or not – receives around 2–3 per cent of national income;

- The countries which are more free economically have higher income levels;

- The poorest 10 per cent of the population in the freest countries had a per capita income of nearly ten times that of the poorest 10 per cent in the unfree countries.

Others, however, question the veracity of the evidence on poverty reduction on the following grounds:

- The World Bank's findings do not establish a causal relationship between openness

and growth. They leave open the question of what other circumstances, policies and institutions are necessary for a country to benefit from the opportunities offered by trade.[11]

- The statistical basis for counting the poor is weak or doubtful. Statistics on poverty can be sensitive as to whether national accounts or household survey data is used (for example India).[12] However, it is widely accepted that poverty has been increasing in parts of sub-Saharan Africa, but that the number of poor people has declined in China and India – which account for 38 per cent of the world's population.[13]
- Comparisons between countries are affected by whether market exchange rates or purchasing power parity (PPP) rates are used in comparing incomes.[14]
- While the relative gap between the per capita incomes of developing countries and industrial countries weighted by population might be declining because of the higher than average growth rates of China and India in the 1990s, whether or not income inequality in the world as a whole (that is, treating all the people of the world as one population) is declining depends also on what is happening to inequalities within countries. There is no reliable or comparable data which enables one to measure income inequality as between countries.[15]

The *Human Development Report 2002* concludes that although it may be difficult to distinguish clear trends in global inequality in recent decades, its level is extremely high – a cause for considerable concern. From the most recent available estimates for 1993, it suggests that:

- The world's richest 1 per cent of people receive as much income as the poorest 57 per cent;
- The income of the world's richest 5 per cent is 114 times that of the poorest 5 per cent.

As Mrs Sakiko Fukuda Parr, lead author of the *Human Development Report 2002*, said in a letter to the *Financial Times* of London in July 2002:

> The debates about the global distribution of income should not obscure the fact that the gaps in income between rich and poor have risen sharply over the past decade, in which more than 60 countries have ended up with lower per capita incomes than at its beginning; or that the gaps that divide the world are not just about income but about access to markets, to knowledge and education and to the wonders of the new global age, such as breakthrough treatment of HIV/Aids.

The existence of such vast income gaps, coupled with a greater sense of insecurity and awareness of what is possible if conditions were right, fuels a deep sense of injustice among the poor and the deprived of the world.

While the evidence on the impact of globalisation on poverty and inequalities is thus patchy and needs to be clarified further, one may ask: has globalisation changed the development – i.e. poverty reduction – context for better or worse, qualitatively?

- It is argued that while liberalisation of trade and capital markets opened immense opportunities for economic prosperity, it has made the world economy more risk prone, and the poor more vulnerable. The sudden shifts in comparative advantage and the volatility in capital flows that now mark the world economy illustrate the risks involved, particularly for smaller states and open economies with little diversity in their production structures. As poor countries lack adequate social safety nets, the poor have thus become more vulnerable to risks in the world economy.

- The opportunities created by globalisation are asymmetrical, as illustrated by the significant barriers to trade precisely in those areas of comparative advantage of developing countries – for example agriculture, processed foods, labour-intensive manufactures, and maritime and construction services. At the same time, world trade is being increasingly dominated by fewer firms, as mergers and acquisitions concentrate economic power – a situation which poorer countries find difficult to penetrate.

- The composition of world trade is changing in favour of knowledge-intensive products and financial and other services – areas in which the vast majority of developing countries start with a disadvantage. And the movement of labour (i.e. the movement of natural persons) – that holds great potential gains for developing countries – continues to remain restricted, unlike in the nineteenth-century when people, including people from Europe, migrated more freely in search of employment.[16]

- It is widely contended that the intellectual property regime agreed in the Uruguay Round of Trade Negotiations is biased against the poorer countries, resulting in significant transfers of income on account of royalties.[17]

- Globalisation has reduced the space available for national policy-making, making the task of economic management in poor country democracies – which face much more complex social and economic situations – that much more difficult.

Thus globalisation, while opening up new opportunities, has also changed the environment in which poor country democracies confront the task of poverty reduction.

3.4 HIV/AIDS

Perhaps one of the great new challenges confronting poor country democracies in their fight against poverty is the HIV/AIDS pandemic. By particularly affecting the working age population, HIV/AIDS reduces the labour force; and by affecting women, it undermines the welfare of those who are already vulnerable, including children. Schools are deprived of precious teachers, the valuable skills of trained workers are lost and public

resources are diverted from much-needed investment in the economy. The facts are staggering: more than 20 million people have died from AIDS, another 40 million are HIV-positive and new infections are occurring at the rate of 15,000 a day. Infection rates are rising, in several cases rapidly, in several Asian countries and in many of the successor states to the Soviet Union.[18] As Bernhard Schwartlander of WHO observed:

- By 2020, more than 25 per cent of the workforce in some countries might be lost to AIDS;
- GDP growth may decline by 2.6 per cent points in countries with a prevalence rate of over 20 per cent.[19]

While a few countries, for example Uganda, Senegal and Thailand, have made remarkable progress in arresting and reversing the trend of this pandemic, poverty, lack of education and the high cost of drugs pose enormous challenges to reducing its spread. The establishment of a Global Fund to fight HIV/AIDS, tuberculosis and malaria, and the Global HIV Prevention Working Group are welcome developments that need to be built on, if this modern scourge is not to consume the poor of the world. (See also Section 12 below.)

3.5 The Degradation of the Environment

Life on earth is confronted with a great new challenge in contemporary times: the degradation of the environment. This is evident in the unprecedented loss of forests, pollution of air and water, sinking ground water tables and growing water scarcity, desertification, shrinking bio-diversity, global warming and the depletion of the ozone layer. Natural disasters have become more frequent and devastating.

The degradation of the environment constitutes a new and particular challenge for poor country democracies in combating poverty. The reasons for this are twofold. Firstly, poor countries have to meet the costs of environmental damage arising not only from national causes, but also trans-border causes such as greenhouse gas emissions for which the industrial countries are mainly responsible. For example, global warming that is due to greenhouse gas emissions is changing weather patterns in unexpected ways, upsetting traditional agricultural patterns and possibly resulting in a greater frequency of natural disasters; small island states are threatened by the prospect of a rise in sea-level. Thus poor country democracies (and small island states) have to find resources to tackle the consequences of causes that lie beyond their national borders – putting a great burden on their economies.

Secondly, poverty and environmental degradation are interrelated: one causes the other. The people whose lives are impoverished by environmental degradation are often the poorest: the marginal farmers on fragile lands; the rural poor and urban slum dwellers without access to safe drinking water or clean sanitation; women who have to walk long

distances to collect water; the poor exposed to noxious and foul air and pesticides; and the people whose livelihoods are diminished by the shrinking commons. And it is the poor who are the main victims of man-made or natural disasters. At the same time, poverty puts pressure on the environment: as Mrs Indira Gandhi once famously said, poverty is the greatest polluter of all. Poor countries are thus caught in a bind. By virtue of their poverty, they cannot find the wherewithal – material or human resources and technology – needed to arrest environmental degradation; and without arresting environmental degradation, they cannot effectively tackle poverty.

Agenda 21 and the Rio Charter, agreed a decade ago, produced a wave of optimism that the need to address these problems comprehensively had reached the global agenda; and indeed there was some positive movement. The Montreal Protocol aimed at arresting the ozone depletion is a success story. But a decade after the Rio Summit, targets for reducing carbon dioxide emissions have been missed and bio-diversity continues to shrink. The promised enhancement in overseas development assistance to help developing countries has failed to materialise.

It is encouraging that at the World Summit on Sustainable Development held in Johannesburg in August–September 2002, China announced ratification of the Kyoto Protocol on green house gases, and Canada and Russia indicated their intention to ratify it soon – giving it enough support for it to come into force. The Johannesburg Summit also resulted in new commitments: for example, the commitment to cut by half the number of people with inadequate water and sanitation, and to try to do so by 2015. It also agreed to do more to conserve and restore fish stocks by 2015, in part by guarding ocean areas already designated as protected. And it committed itself to taking greater action to promote the use of renewable energy. It also reiterated the commitment to enhance Overseas Development Assistance (ODA) flows as agreed at the Monterrey Conference (see Section 10 below).

The Johannesburg Summit also provided greater opportunities for governments, the private sector and NGOs to demonstrate their willingness to collaborate in arresting environmental degradation (the so called 'Type 2 Initiatives'), that will help import private money and expertise into sustainable development projects.

While these developments at Johannesburg represent movement, action still falls short of what is needed, given the intimate link between the environmental degradation and the depth of poverty in the world. It is disappointing that the US, which is responsible for one-quarter of all greenhouse gas emissions, has refused to ratify the Kyoto Protocol. Tackling environmental degradation thus continues to constitute a huge new challenge for the poor country democracies in combating poverty.

B

Support for Democracies in Combating Poverty

How can democracies' efforts to combat poverty best be supported? Clearly, an understanding of the links between conflict, poverty and development, on the one hand, and democracy and good governance, on the other (the links that Commonwealth Heads of Government referred to in setting up this Expert Group) is important. This Part reviews evidence for such links, and outlines possible ways, political, economic and social, in which democracies might best be supported in the task of poverty reduction.

Sections 4 and 5 deal with peace and security, and issues related to the deepening of democracy and good governance. Sections 6–8 discuss the importance of pro-poor growth, participatory processes and empowerment of the poor for poverty reduction. Sections 9–11 deal with issues of trade, aid, debt and the reform of the financial architecture. Sections 12 and 13 discuss issues related to the promotion of pro-poor health and education policies. Section 14 deals with the opportunities provided by the new technologies. Section 15 concludes this part of the discussion by discussing issues related to global governance in the context of poverty reduction.

4

Tackling Conflicts, Failed States and Terrorism

Does the international community have effective arrangements in place to lessen conflict and to bring peace to conflict-ridden countries and order back to failed states? In answering these questions, it is useful to start by reviewing the causes of conflict and the collapse of states.

4.1 Why Do Conflicts Occur? What Causes the Phenomenon of 'Failed States'?

It is tempting to think that conflict is inevitable in societies marked by ethnic divisions, but the evidence suggests that ethnic identities are as much created and reinforced by conflicts as an original cause of them. Commenting on the roots of conflict, the World Bank observes:

> Colonial rulers and local politicians have often manipulated ethnic tensions for private gain, sometimes leading to gruesome civil wars. Inflaming ethnic tensions and civil unrest is a frequent strategy for gaining and keeping power in these circumstances, since it justifies expanding brutal military forces while undermining the capacity of opposition groups demanding reform. Over time, ethnic minorities, especially facing discrimination, inequality, or conflict, can become ethno-classes, groups whose ethnicity-based sensibilities and demands become independent causes of conflict.
>
> World Bank (2001), p. 127

Is conflict linked to poverty? As we have seen from the experience of Nazi Germany, former Yugoslavia and elsewhere, communal hatred and deep and violent conflicts can occur in rich as well in poor countries. It is not true to say that conflict is inevitable in poor societies. Not all poor countries are conflict-ridden. Rather, conflict seems to be driven by a sense of injustice, as elites capture wealth and income through predatory behaviour (see Section 5 below which discusses lapses from democracy and good governance as causes of poverty). The decline in incomes from external causes – such as the fall in commodity prices – may then deepen such conflicts as elites lose the capacity to buy off the poor, and the poor bear a disproportionate share of the burden of falling incomes. Democracies, it is contended, are much more likely to survive in wealthy societies.[20]

The poor may come under pressure not only because of the predatory behaviour of ruling elites, but also because of the structural adjustment programmes that cut deep into

social safety nets and compress public educational and health budgets under the pressure of fiscal rectitude. The tensions and conflicts arising from such a change can become explosive if the divide between gainers and losers from economic reform overlaps with social divides marked by ethnic or regional identity.

Lack of effective democracy and strong civil society organisations – for example chambers of commerce, trade unions, professional groups, sports clubs and women's associations – that promote engagement between different communities and peaceful mediation in conflict situations can then accentuate conflicts rooted in injustice and lack of good governance.[21]

The marginalisation of young men, through lack of opportunities for schooling, further education and activities such as sports and culture seems to lead to violence. This applies to rich, as well as poor, societies, when race or religion isolates the young from full participation in the societies in which they live.

Mineral-exporting countries seem to be particularly prone to predatory behaviour – as people find it easy to lay their hands on income that flows from sources such as oil, diamonds and the like in a non-transparent way. However, as we have seen from the experience of Botswana and elsewhere, this is not inevitable: much depends upon the quality of leadership a country enjoys.

Some scholars have noted, for example, that the increase in intra-state conflicts and humanitarian emergencies in Africa in the last two decades of the twentieth-century was linked to its negative per capita growth in the 1970s and 1980s and virtual stagnation in the 1990s.[22] It can be argued that the absence of effective political space for dialogue (that is, democracy), good governance and participatory processes for development make it more likely that stagnation results in conflict, rather than economic stagnation *per se*.

In parallel to the rise in intra-state conflicts, state collapse also became a more frequent phenomenon in the 1980s and 1990s. While the fragmentation of society and the destruction of institutions of government that internal conflicts bring about can be a powerful cause of state collapse, the loss of legitimacy arising from the predatory behaviour of ruling groups, and the running of the state into the ground by corrupt leaders and officials, can also be potent causes of state collapse.

Once anarchy sets in, the economic interests of the marauding militia can be a powerful factor in perpetuating a state of collapse, as has been seen in Sierra Leone and elsewhere. As the World Bank has noted:

> In most countries where the state has collapsed, there are forces that have an interest in perpetuating a state of anarchy, whose unbridled pursuit of riches or power would be constrained by a state with the capability to make rules, collect revenue and enforce the law. ... Civil warfare in these countries has its roots in political or ethnic rivalries, but it has gradually shifted character and is now centred around the control of economic assets, which provide the source of financing for war and for private

enrichment. World Bank (1997)

If such are the roots of conflict and the phenomenon of 'failed states', then clearly the promotion of inclusive political processes, good governance, strong civil society and careful management of economic reforms assume central importance in reducing conflict. But to set in train such processes for long-term peace building, one needs to have in the first instance conflict resolution and post-conflict stabilisation mechanisms in place in the countries currently affected by conflict.

4.2 The Adequacy of Current International Arrangements

In the last decade, with the end of the Cold War, the global community has edged towards new solutions for securing peace and bringing a sense of humanity to tackling global problems. These include:

- Extension by the UN Security Council of the concept of 'threats to the peace, breaches of the peace and acts of aggression' to allow it to take action under Chapter VII, the enforcement chapter of the UN. Steps taken under this included action to restrain Iraq's *future* behaviour that might threaten peace, and the establishment of safe havens and no-fly zones to protect the Kurdish population in Iraq;
- A sharp increase in UN peace-keeping missions in parallel with the UN Security Council's extension of the concept of the threat to peace;
- The use of the word 'humanitarian' in more and more UN Security Council resolutions that deal with the effects or the residue of war;
- The adoption of an international ban on land-mines;
- The establishment of the International Criminal Court and, separately and prior to it, the war crimes tribunals in the former Yugoslavia and Rwanda.[23]

While all these steps represent a changing global community response, some of them still lack universality (for example the US has failed to ratify the International Criminal Court, nor have all countries as yet signed the ban on land mines. Overall, the ability of the international community to intervene in conflict situations and restore peace remains limited.

The driving principle behind the UN's operations is that it cannot intervene in internal conflicts unless invited to do so. Nor does the UN have a well-developed position to deal with failed states. The recent international efforts to contain conflicts and assist post-conflict reconstruction have been undertaken both within and outside the framework of the UN.

It is also pointed out that while the UN has been increasingly thrust into dealing with post-conflict situations in places such as Cambodia, Kosovo, East Timor and Sierra

Leone, the major member states of the UN have been reluctant to grant it the capacity it needs if it is to accomplish much on the ground.

Several observers have noted that the UN's operations in the area of peace-building and peace-keeping are invariably *ad hoc*. Action often comes too late, local human resources are frequently neglected and a lack of public order and personal security often frustrate its operations. The Brahimi Report of 2000 on UN peace-building and peace-keeping revealingly concluded that 'over the last decade the United Nations has repeatedly failed to meet the challenge; and cannot do any better today'.

The failure to respond to the genocide in Rwanda in the early 1990s, in which nearly one million people perished,[24] speaks loudly of the international community's inability to deal systematically with conflict and genocide.

In addition, the UN has no direct mandate to promote democratic as against other forms of government. It has no legitimate means of exercising pressure against military dictatorships or authoritarian regimes.

The Commonwealth, as a global sub-system, has been involved in conflict resolution at the request of member countries. The Commonwealth Secretary-General's good offices have been increasingly invoked to help resolve conflicts and restore democracy. The Commonwealth's capacity in this regard, however, is limited by a lack of resources and support for requisite institutional capacities.

There have been several regional and bilateral initiatives to help resolve conflicts and bring peace in Palestine, Sri Lanka, Somalia, Democratic Republic of Congo and elsewhere. These have met with patchy success. The US-led operations to combat terrorism in Afghanistan have succeeded in bringing about a change of regime and peace-building is underway.

Perhaps the most salutary success the international community has seen – and can take some credit for – is the transition in Sierra Leone from conflict and a breakdown of social order to successful elections in May 2002 and peace thereafter. While the UN has been involved, much of the credit for this success goes to regional and bilateral efforts, including importantly Britain and Nigeria – both members of the Commonwealth – who have made a difference to the situation on the ground through committed and sustained involvement.

The emergence of East Timor as an independent nation is another example of successful international intervention.

The experience in regard to the international community's ability to deal with conflict situations and restore peace is thus marked by some successes – but also by many failures. Part of the reason for failure is the intractable situation that prevails in many conflict-ridden countries, despite the best international will. Somalia is an example of this.

It has been argued that for peace efforts to succeed, it is critical to secure a change, either voluntarily or through the use of force, in the perception of ruling elites in conflict-

ridden countries, so that they come to believe that it is in their interests to work to build democratic societies in which the rule of law prevails and economic enterprise succeeds.

How can such a change be brought about? Can the international community take any action in this regard?

One may argue that peer pressure and the threat of sanctions against the ruling elites – such as a ban on travel, exclusion from international meetings and councils, seizure of assets held abroad by members of corrupt regimes (measures the Commonwealth contemplated in the context of Abacha's Nigeria) – could have a significant impact on the perceptions of rent-seeking elites. While these punitive measures are important, and their scope needs to be strengthened, the promise of positive measures of help may also create incentives for change.

Post-conflict assistance such as stipends for disarming soldiers, assistance for returning refugees and internally displaced people, building up police, judicial and other capacities within governments and restoration of infrastructures in such areas as transport, power, health and education, can play a significant role in restoring peace. So too can help in setting up capacities for local government and other democratic processes; in this institutions such as electoral commissions can play a huge role. However, if these efforts are to be successful, they must be linked to a degree of optimism that economic growth is possible. While improved opportunities for enterprise and productive engagement will to a large extent depend upon domestic measures, substantial outside assistance will be required in sustaining post-conflict stabilisation and return to normalcy.

The issue of failed states also raises difficult questions of international law, and how to mount sustained operations until the institutions of government and democratic political order are restored or established. In the absence of well-established ground rules for this, the responsibility for intervention in failed states is increasingly falling under the leadership of the US as the world super power, often outside the framework of the UN decision-making, eroding multilateral responsibility for global action. An issue for discussion is, therefore: how can multilateralism be strengthened in dealing with situations of failed states, terrorism and deep conflict? Is there, for example, scope for reviving the concept of UN trusteeship to deal with failed states? Can regional organisations, which may be closer to realities on the ground, assume such responsibilities?

4.3 Terrorism

It was noted earlier that the persistence of deep poverty and a sense of injustice are fertile grounds for conflict, and that conflict-ridden situations and failed states can become sanctuaries for terrorists. As terrorism becomes enmeshed with drug trafficking, the arms trade, money laundering and illegal smuggling of people across borders, it can perpetuate deep poverty on the one hand and authoritarian rule on the other.

While poverty as such is not a cause of terrorism, it can constitute a rich recruiting ground for terrorists – as we have seen in the context of Afghanistan. Poor people

become prey to false propaganda and promises.

Are the current international efforts adequate in suppressing terrorism?

In the wake of the events of September 11, UN Security Council Resolution 1373 imposed binding obligations on all states to suppress and prevent terrorism, cut off funds and prevent access to weapons to terrorists, and to co-operate at judicial level. Resolution 1373 also established the Counter-Terrorism Committee (CTC) to monitor the implementation of the measures imposed, and each state is required to report to the CTC on the steps it has taken to implement the resolution.

On 25 October 2001, Commonwealth Heads of Government also condemned 'any nation which harbours, supports or provides assistance to terrorist activity'.

These measures, and the intervention in Afghanistan, have heightened the priority attached by the global community to fighting terrorism. There is also some evidence that terrorist groups, confronted with a much more hostile international environment, are losing support in their constituencies and are willing to start dialogue – if only as a tactic for buying time until the international situation cools off.

The effective combating of terrorism requires not only national action, but also enhanced international co-operation involving intelligence sharing, tracking and confiscation of the financial assets of terrorists, prevention of sale and transport of weapons of all kinds and a commitment not to harbour terrorists. However, the lack of a clear-cut definition of what constitutes terrorism, and the lack of adequate intelligence, technical capacity and adequate channels of international co-operation continue to hamper the efforts to suppress terrorism. The unwillingness of some states to deny sanctuary to terrorists also continues to be a problem. The failure of some states to effectively regulate the trade in arms is also a factor in perpetuating terrorism.

5

Deepening Democracy and Good Governance

In asking for recommendations on how democracies might best be supported in combating poverty, Commonwealth Heads of Government have expressed their belief in the positive links between democracy and good governance. What are these links? And what evidence do we have that democracy leads to poverty reduction?

In what follows, we examine the arguments and evidence for the view that democracy leads to good governance and poverty reduction; argue for the primacy of democratic freedoms; discuss how democracy and good governance can be deepened, including through the adoption of appropriate economic policies; and examine whether peer pressure has a role to play in promoting democracy and good governance.

5.1 The Links between Democracy, Good Governance and Poverty Reduction: The Argument

Amartya Sen[25] has argued that democracy has an intrinsic, instrumental and constructive value. The intrinsic value lies in the citizens' ability to exercise choice and the expansion of individual freedoms that it represents. The instrumental value lies in the fact that in democracy the rulers have the incentive to listen to what people want if they have to face their criticism and seek their support in elections: for example no substantial famine has ever occurred in any independent country with a democratic form of government and a relatively free press. Beyond this instrumental role of promoting policy response to economic needs, democracy can also be constructive – in that it facilitates a proper conceptualisation and comprehension of needs through the participatory processes of discussion and exchange characteristic of democratic functioning.

One could go further and argue that democracies, by providing space for peaceful mediation among competing interests and parties in conflict, promotes peace and political stability – and thus development. Many observers have also noted that democracies rarely go to war against each other: absence of war, clearly, is important for development and poverty reduction.

Lack of good governance, it is widely agreed, hurts the poor. And it is further contended that democracy is inherently linked to good governance: they reinforce each other.

What do we mean by good governance? While it is a concept that defies close definition, its main contours are easy enough to delineate: security from violence, the rule of law, transparency, absence of corruption, non-discrimination on grounds of race, gender, religion or language, inclusive decision-making processes, and responsive, efficient and

effective institutions. An effective judicial system that protects basic human rights, dispenses justice quickly and effectively and is accessible to rich and poor alike, for example, is an essential element of good governance. Lack of arbitrary behaviour in the way rules are interpreted in the administration of government is another essential ingredient of good governance. Many also consider macroeconomic stability, sound money, a strong role for private sector, small government and low taxes, protection of property from expropriation and the ability to trade freely as features of good governance.

Lack of good governance hurts the poor for at least three reasons: first, by reducing the overall growth of an economy, it reduces the capacity of a country to lift the poor out of poverty; second, by directly discriminating against the poor, it perpetuates their poverty; and third, by nurturing inequality and a sense of injustice, it can breed conflict, political instability and a loss of security. In all these ways, lack of good governance can perpetuate and deepen poverty.

5.2 Empirical Evidence

While the above suggests that there is much ground linking democracy, good governance and poverty reduction, as the recent *Human Development Report 2002* notes: 'in many countries questions linger about compatibilities and trade-offs between democracy and development'. The argument is that while growth is essential for poverty reduction, there is no necessary relationship between democracy and good governance, and therefore growth. Deepak Lal, for example, argues:

> While democracy promotes liberty, it may not promote opulence, which depends upon an efficient market economy, and which in turn does not require a democratic form of government for its maintenance. ...
>
> ... In the post-war period one only has to consider the far Eastern 'Gang of Four', or the more successful economies in Latin America like Chile, and until the 1980s, Mexico and Brazil, to realize ... that there is no causal relationship between democracy and development.
>
> Lal (1999), pp. 101 and 106

The fact that some of the high achievers of growth – and poverty reduction – were China and other countries in East Asia has led many people to doubt whether democracy, economic growth and poverty reduction are necessarily interconnected. The *Human Development Report 2002* observes:

> ... while the economic performance of dictatorships varies from terrible to excellent, democracies tend to cluster in the middle. The fastest-growing countries have typically been dictatorships, but no democracy has ever performed as badly as the worst dictatorships ... The same is true for poverty reduction.
>
> *Human Development Report 2002*, p. 56

... In many Latin American countries disparities in income and education rose in the 1990s after democratic rule was restored in the 1990s. Income inequalities also jumped in the former Soviet Union, Central and Eastern Europe and the Baltics. By contrast, [countries such as] Indonesia and the Republic of Korea ... achieved solid economic growth and reduced income inequalities under non-democratic rule in the 1970s.

So, while democracy can promote equitable development, the goals of democracy and equity should be considered largely independent – with both requiring dedicated effort and political will. Ibid., p. 60

It is argued, then, that while more and more countries embraced democracy in the last two decades of the twentieth-century – with some 81 countries taking steps towards democratisation – democracy has not produced the dividends that the ordinary people hoped for. As the *Human Development Report 2002* notes:

Perhaps most serious, people around the world seem to have lost confidence in the effectiveness of their governments – and often seem to be losing faith in democracy. Ibid., p. 63

The despair that ordinary citizens seem to feel in many democracies seems to indicate a lapse in the workings of democracy. As Richard Stanbrook, in a paper presented to the International IDEA Democracy Forum 2000, noted:

... in practice, these expectations [of the newly enfranchised citizens in the third wave of democratisation of freedom and prosperity] have rarely been fulfilled. Rather, disillusionment and even cynicism have replaced citizens' enthusiasm in most democratic experiments. As IDEA's South Asia workshop observed: 'The trappings of democracy have allowed unrepresentative elites to hijack power, promote their own interests, and bypass the poor ... For most people elections have become irrelevant. ...

... Democracy, which should have empowered the people to demand their rights, has usually failed to do so ...

Why? Richard Stanbrook believes that the undermining of political institutions by the elites, divide-and-rule tactics that rely on fanning ethnic, regional, caste or religious identities, and the entrenching of class privilege through constitutional amendments are some of the reasons for this disillusionment.

Is democracy, then, irrelevant? Why is there such a failure of good governance in many democracies, contrary to what we expect? Is the link between democracy and good governance, which the Commonwealth Heads of Government have emphasised, misplaced?

5.3 The Primacy of Democracy

The evidence that there is no necessary correlation between democracy, on the one hand, and growth and reduction of poverty on the other may tempt one to conclude that democracy does not matter. However, it can be argued, as Amartya Sen maintains, that political freedoms are valuable in their own right; they should not be valued only for their instrumental role. Furthermore, if poverty reduction is understood as an expansion of the freedom of the individual to exercise choices in the way he or she wants to live, then clearly democracy is also a necessary constituent of poverty reduction, whether or not it contributes to increasing income or relieving other aspects of poverty.

Many countries, including member countries of the Commonwealth, driven by the widespread demand for political freedoms, have committed themselves to democracy. We should, therefore, simply accept it as an independent objective. If democracy is not working well, then it is for humanity as a whole to consider in what way it can help to deepen democratic freedoms in different parts of the world, rather than be agnostic about it.

Having said that, one may question the basis of the empirical finding that there is no statistical correlation between democracy and poverty reduction on several grounds. Firstly, it is not clear that a country can be classified either as a democracy or not a democracy: while many countries may have democratic institutions, the practice of democracy may vary depending upon how well its parliamentary, judicial, media and other institutions function, which may in turn be limited by such factors as inequity, illiteracy and poverty.[26] Many countries may thus be in a category which is neither fully democratic nor fully undemocratic. Secondly, it is also not clear which measure of poverty is used in these correlation exercises: if it is income poverty, then these correlations do not test the propositions we wish to test. Thirdly, cross-section comparisons fail to capture the time-trend relationships; nor do they allow for non-linear relationships between democracy and poverty reduction – that is, that there might be dynamic effects in place which might show that poverty reduces to a lesser or greater extent as the democratic process takes root.

Clearly, democracy is a journey – with different countries at different mileposts. And the road is not a straight one: there are byways and alleys, with some running into sand, some going back where they started and others linking up further along the road nearer the goal of democracy. In such a situation, it is not surprising that there are such poor statistical correlations.

In attributing success to some authoritarian regimes in reducing poverty, one also is confronted with the following question: what is its operational value? And who are we addressing in this context? Are we suggesting that people should set about choosing an authoritarian regime, because some authoritarian regimes have been successful in reducing poverty? Is that not a contradiction in terms? And how do we know that an authoritarian regime, once allowed to take reins, will work for poverty reduction? Should we

not reckon with the fact that some of the greatest humanitarian tragedies (for example famines and genocides) have rarely occurred under democracies?

In this context, it is worth noting the *Human Development Report 2002*'s finding that democracies – imperfect as they are – do not produce as much variation in growth as dictatorships do. There is safety in democracy.

If, therefore, we are convinced that on *a priori* grounds democracy should help with poverty reduction, we should look for ways of improving the democratic practice rather than reject the well-argued causal links between democracy and poverty reduction on the basis of cross-sectional correlations.

5.4 Deepening Democracy

If we accept, then, that democracy is important in its own right, and improving democracy can help poverty reduction, what support can be provided to help deepen democracy? One may argue that it is important to look not only at the design of democratic institutions, as laid down in a country's constitution, but also at the democratic practice. The latter is often as crucial as the former. Democratic institutions, even if they are well designed, may become dysfunctional because of corruption, lack of competent or well-motivated personnel to run them (for example lack of well-trained judges or parliamentary secretariats) and antecedent social inequalities that disempower the poor from having adequate reach in the exercise of their rights (for example the position of African-Americans in the US before the the mid-1960s).[27] In strengthening the link between democracy and poverty reduction, one needs to search for ways of deepening democracy in countries already committed to the democratic ideal, rather than question the value of democracy for poverty reduction.

In looking for ways of deepening democracy, six areas of critical importance may be mentioned:

- Developing stronger vehicles for formal political participation and representation through political parties and systems;
- Promotion of democratic politics and deepening democratic practice, such as participatory, accountable and gender-responsive budgeting;
- Strengthening checks on arbitrary power by separating powers among the executive, judiciary and legislature, and by creating effective independent entities such as Ombudsmen, independent electoral commissions, Auditors General and public accounts committees;
- Decentralisation – devolving power from the central government to provinces and villages, underpinned by stronger local democratic institutions and practices;
- Developing free and independent media;

- Entrenching the right to information, e-governance and expansion of space for civil society organisations.

Each of these areas of action requires deeper discussion;[28] and their application should take into account the particular historical conditions in the country concerned. There are, however, two threads that merit special emphasis: one is that the enlargement of civil society – and the associated development of institutions that exercise *countervailing power* – is critical for strengthening democratic practice; the other is that democratic practice can be significantly influenced by the quality of economic policy itself. We turn to this latter theme below.

5.5 The Quality of Economic Growth and Democracy

As is widely agreed, economic growth transforms society, shifts balance of power and new political alliances are forged as different social groups vie for authority. Some types of change are good for democracy, and others harmful.

- It can be argued that growth based on open and transparent economic regimes is good for democracy. As well as making people richer, economic freedoms also make them politically freer.
- Policies that rely on the state playing a lead role through licensing, control and excessive protection from external competition have in fact created vested interests that work against good governance and genuine democracy, with the result that these regimes have become anti- rather than pro-poor in their overall policy stances. It is widely noted that countries with more open trade regimes tend to be less corrupt.
- Economic policies that create opportunities for rent-seeking not only result in corruption and inefficiency; they spawn criminal gangs, for example smugglers and bootleggers, who in turn become part of the political landscape, criminalising politics. Once such criminal gangs get established, they work against change. Even if the original policies that spawned them disappear, it becomes difficult to uproot these criminal elements, as they metamorphose into business enterprises with an ingrained criminal propensity.
- It is suggested that knowledge-based growth is good for democracy as it empowers human beings.
- Pro-poor growth empowers the poor, and the empowered poor are a force for democracy.
- Concentration of wealth and monopolies in markets threatens political liberties and undermines democracy. Policies that oppose the concentration of economic power – be it in the hands of the state or in the private sector – are therefore supportive of democracy.

5.6 Corruption and Failure of Good Governance

If the links between democratic frameworks and poverty reduction are flawed, perhaps the strongest reason for this is the widespread corruption and failure of good governance in many parts of the world. What are the roots of this?

- **Money in politics:** it is contended that in many countries, huge election expenditure by political parties and individual candidates create strong incentives for the parties in power – and those in opposition – to seek bribes through the creation and maintenance of 'rent-seeking' opportunities. Corruption linked to party funding is not confined to poor countries, as some recent instances show; however, it is more widespread in poor countries, and the public censure is less.
- **Opportunities for bribe taking and rent seeking** through direct state monopoly ownership and management of economic activities, creation of artificial gaps between supply and demand, and the vesting of large discretionary powers in the hands of administrators.
- **High rates of tax, and onerous regulations and rules** that encourage evasion.
- **Weak judicial systems** and protracted judicial processes, weak enforcement mechanisms and low penalties compared to gains from breaking rules and regulations.
- **Complex rules and legislation** designed to meet the worst possible scenario, but which in fact make government complex and open up opportunities for bribery and nepotism.
- **Secrecy and lack of transparency** in public procurement, including arms purchases.

These processes are in turn reinforced by the insecurity of the poor, low literacy, lack of information, restrictions on the media and the unscrupulous business practices by both national and international business groups. Absence or violation of merit based selection of public servants, ill-defined administrative law, the steady erosion of public institutions, poor pay coupled with the rising ambitions of the middle class to enjoy a higher level of living and declining citizenship values as money becomes the main driving force have undermined clean administration. Where conflict is rife, the criminalisation of politics is also a factor in the decline of good governance.

Why do voters not punish corrupt governments? There are instances enough to show that in many developing countries, governments have been voted out of power because of one scandal or the other. There is indeed an anti-incumbency factor at work in voting patterns in many democracies, reflecting the dissatisfaction of ordinary citizens at the quality of government. However, when corruption becomes widespread and touches the lives of many people – both as takers and givers of bribes – tolerance of corruption appears to take over, as people become convinced that the elimination of corruption is

too gigantic a task. The World Bank, for example, notes that:

> Many parts of the developing world retain a certain ambivalence towards corruption ... A common view is that corruption merely greases the wheels of commerce, and without it there would be no transactions and no growth. Apparent support for this comes from the fact that some countries that rank high in surveys of the level of corruption have also excelled in economic growth [for example China in the last two decades, India in the 1990s, and Indonesia prior to the 1997 crisis]. The predictability of corruption provides some insights into this apparent paradox.
>
> World Bank (1997)

Be that as it may be, it is clear that corruption imposes many costs on society, and detracts from economic performance and poverty reduction:

- Corruption increases the transaction and financial costs of business, acts as a barrier to entry and reduces the competitiveness of the economy at home and abroad. It inhibits foreign investment (even though foreign investors, particularly those investing in natural resources, are major sources of corruption themselves).
- Corruption works against equity, works against the poor and the under-privileged and reduces efficiency.
- By undermining the legitimacy of the state, corruption reduces the effectiveness of government.
- By nurturing a sense of injustice, corruption breeds conflict – and conflict, as we know, deepens poverty.

How, then, can one combat corruption?

Clearly, strengthening accountability and transparency, simplifying government, reducing rent-seeking opportunities, strengthening judicial processes and contract-enforcing mechanisms, public service reforms, institution of public oversight mechanisms such as an Ombudsman, decentralisation of government and protection of the independence of the media will all help.

The role of international actors must not be ignored either. It is a widely held perception that in the search for licences to exploit natural resources or sell arms, international businesses indulge in much bribery. The general presumption that without bribery, nothing much moves also makes many businesses accept the need to bribe.

Are there any particular measures that the global community can take in combating corruption? Possible areas for action include:

- Strengthening of procurement guidelines by the international financial institutions (IFIs) and bilateral donors to prevent fraud and corruption;
- The amendment of tax laws with a view to deny tax deductibility of bribes to foreign

public officials, as provided for by the OECD's Anti-Bribery Convention (now signed by some 35 countries);

- Better monitoring of corruption, through improved methodology and intelligence;
- Transparency in the arms trade;
- Strengthening anti-money laundering measures;
- Provision of technical assistance for capacity building to combat corruption and promote good governance;
- Adoption of codes of conduct by international business associations, and support for such voluntary steps as the Wolfsberg Principles, an initiative of 11 leading international banks.

As Mark Pieth, Chairman of the of the OECD Working Group on Bribery, has observed, elimination of corporate bribery will require prosecutors to take a fresh look at the behaviour of their highly respected local companies when operating outside their national markets.[29]

There is thus much that the international community could do to curb corruption. It is important, however, that in developing international conventions and codes of conduct, the global community should adopt an inclusive process in which rich and poor countries alike can participate. The Commonwealth Expert Group on Good Governance and the Elimination of Corruption in Economic Management (initially chaired by Mahabub ul Haq of Pakistan and, following his untimely death, by Kwesi Botchway of Ghana)[30] has called for a global compact against corruption, negotiated under the auspices of the UN with universal participation. A UN convention that is comprehensive, covering areas currently not adequately addressed – such as the repatriation of stolen funds and mutual assistance – would indeed be a positive step.

5.7 Co-opting the Elites for Change

If the above is accepted, what stands in the way of countries formally committed to democracy and poverty reduction adopting measures that can help deepen democracy and promote good governance?

As noted above, democratic deficiencies arise partly from the problems of transition from authoritarian rule to a democratic order, and partly because of the capture of power by elites who resist genuine democratisation. When such elite-based political leaders may gain more from extensive unproductive profit-seeking activities in a political system they control than from long-term gains from pro-poor growth, they frustrate the evolution of a well-functioning state in which economic progress and democratic institutions flourish.[31] The question then is: what can be done to change the perceptions of such elites in favour of a well-functioning democratic order?

While domestic events may take a course that might change the perceptions of the elites in time – for example the education of the poor or the opening up of markets might set in train a dynamic process of change for the better – clearly, external pressures and incentives could also influence events. Such external pressures and incentives could take the following forms:

- Global support for pro-poor growth and the empowerment of the poor that could in turn strengthen democratic forces. (How the global community might support pro-poor growth and the empowerment of the poor is discussed in Sections 7 to 15 below.) This approach essentially relies on creating win–win situations for the elites vis-a-vis the poor, so that the elites become open to change;
- Peer pressure through the international system.

The potential for peer pressure is illustrated in the work of the Commonwealth Ministerial Action Group's, which acts as a guardian of the Commonwealth's political values of democracy, the rule of law and human rights. This is unique in that it enforces the values that member countries have collectively committed themselves to, rather than values imposed from outside. The UN, in which most of the nations of the world are represented, has no such commitment: it cannot impose sanctions, nor does it exercise peer pressure on the grounds of lack of democracy. The Organisation of African Union (OAU) – now the African Union (AU) – has declared its commitment to democracy, but has not developed any mechanisms to carry that commitment forward. A significant development is the recent proposal by African Leaders for a New Partnership for Africa's Development (NEPAD), welcomed by G8 leaders at their Kananaskis Summit in June 2002, and later adopted by the AU. NEPAD, it will be recalled, commits itself to long-term political change that will entrench the rule of law and good government; it proposes to carry this forward through a peer review, whereby governments will voluntarily submit to criticism by fellow Africans according to commonly agreed standards. While the details of the peer review mechanism need to be developed and clarified, it is clear that there is a huge political will developing in favour of such continental mechanisms.

In recommending peer pressure as a force for democracy and good governance, it is important that it is applied equally to all countries coming within its purview. If the perception develops that peer pressure is used selectively in the interests of the larger powers, it loses its moral value. It is also necessary that peer pressure should be combined with a programme of positive help – carrots should be dangled along with the stick.

6

The Relationship between Economic Growth and Poverty Reduction

In the preceding section, we reviewed the relevance of democracy and good governance to poverty reduction, and how their relationship might be deepened. In this section, we ask ourselves: in achieving poverty reduction, will it be enough to focus on GDP growth? An answer to this question carries significant implications for the kind of support that the international community should offer in combating poverty.

Jagdish Bhagwati of Columbia University sets out three central reasons in support of his belief that growth is the key to poverty reduction:

- It creates jobs that 'pull up' the poor into gainful employment by providing greater economic opportunity;
- It provides the revenues with which to build more schools and provide more health facilities for the poor;
- It creates the incentives that enable the poor to access these facilities and also for the advancement of progressive social agendas generally (Bhagwati, 2001).

Bhagwati is not alone in stressing the importance of growth in poverty reduction. His views are very much in line with the Washington Consensus (see Annex D) which, as Joseph Stiglitz says, paid little attention to issues of distribution or fairness: 'If pressed, many of the proponents [of the Washington Consensus] would argue that the best way to help the poor is to make the economy grow' (Stiglitz, 2002, p. 78). This is the trickle down view of poverty reduction.

Is this valid? While there is significant evidence that, over time, differences in growth across countries account for much of the variation in income poverty, there can also be large variation in poverty reduction in situations where there is the same growth rate in per capita consumption. It is generally the case that growth which reduces inequality reduces poverty more quickly than that which is accompanied by rises in inequality. For example, according to the World Bank, in Uganda growth with declining inequality delivered strong poverty reduction, while in Bangladesh rising inequality tempered poverty reduction from growth. On the whole, growth leads to less poverty reduction in unequal societies where wealth and opportunity are concentrated than in egalitarian societies. The Bank finds that the sensitivity of poverty to growth depends a great deal on initial equality in poor people's access to opportunities to share growth.

There is now growing evidence that policies that enhance the capabilities and opportunities of the poor to take part in growth have the double advantage of reducing

poverty while enhancing growth. Policies that improve the education and health of, and confer property rights on, the poor and reduce gender disparities have such double benefits.

While this may be broadly acceptable to many, investment in pro-poor sectors like education and health may take time to yield productivity benefits, so that the dynamic effects of investment on growth may show up only given sufficient time. It could be argued that in the longer run an economy might achieve higher GDP growth through early attention to pro-poor human development. Some scholars have, for example, argued that China's recent high growth rate has been made possible partly by the earlier investment in the education and health of its people, though its economic policies immediately after the revolution – for example the collectivisation of agriculture and the so-called 'great leap forward' – were disastrous. In judging the robustness of pro-poor policies, one therefore needs to take the sequencing of policy and productivity lags into account.

Economic policy, then, could produce a range of outcomes: growth may have differential outcomes in terms of poverty reduction. Pro-poor growth need not detract from overall performance.

It is also necessary to distinguish between strategies that seek to attack poverty through pro-poor growth policies like investment in education and health, and straightforward transfers of income or assets. Much of the uneasiness about pro-poor policies among the followers of the Washington Consensus and others arises because of doubts about the efficacy of the transfers route for reducing poverty in a sustainable way. What worries many is that transfers to the poor might mean that investment, including in sectors like education and health, might suffer, with the result that the capacity of the economy to provide employment and higher wages in the future might suffer.

We believe this is a genuine dilemma in many societies and that several remarks are in order. Firstly, transfers *per se* might be necessary in times of distress, such as famines, financial crises, sudden loss of employment and chronic hunger. An absence of state policy that responds to distress and hunger, apart from violating a sense of humanity, risks the danger of social upheaval and political instability – and that is bad for growth. Secondly, adequate nutrition is productivity enhancing – people cannot work without food in their stomachs; there might thus be a positive link between transfers to the poor and economic performance. And the staying power that the poor acquire through consumption subsidies such as price subsidy schemes for cereals and other essential articles of consumption may alter the wage bargaining and other aspects of market power dynamic that may be necessary for democracy to work well. It is also widely recognised that the redistribution of land in societies where ownership is highly concentrated has beneficial effects on account of both equity and growth, as the experience of Korea, Taiwan and others shows.

While subsidies may thus have a place, clearly there is a limit to them and the ques-

tion is how to get the level right, so that incentives to work and to ensure growth in the economy grow are not damaged. The dilemma is that in many poor countries, the situation may be so fragile that there is no alternative but to provide support for the poor even if it is damaging to growth in the long run, unless international assistance comes to the rescue in providing a cushion.

Overall we are driven to conclude, as Joseph Stiglitz does, that notwithstanding the correlation between growth and poverty reduction across countries:

> ... the statistics show that some countries have grown without reducing poverty, and some countries have been much more successful in reducing poverty, at any given growth rate, than others. The issue is not whether one is in favour of or against growth. ...
>
> The question has to do with the impact of *particular policies*. Some policies promote growth but have little effect on poverty; some promote growth but actually increase poverty; and some promote growth and reduce poverty at the same time. The last are called pro-poor growth strategies. Stiglitz (2002), p. 82

7

Participatory Processes and Empowering the Poor

As the Commonwealth Heads of Government stated in their Fancourt Declaration of 1999, 'if the poor and vulnerable are to be at the centre of development, the process must be participatory in which they have a voice'. While democracy should in principle be promoting greater participation by all citizens, including the poor, in decision-making processes, in far too many countries democratic processes advance only to the point of holding elections periodically. Between elections, people remain far removed from the process of governing. Countries that allow for greater participation, it is suggested, achieve not only higher efficiency but also better targeting of needs. The participation of people could be in various contexts and take various forms: in budget making, the design of projects, monitoring, evaluation, the management of local facilities and institutions like irrigation, roads, schools, water supply and clinics, and auditing and accounting.

But the effective participation of people in governance is limited by the feeling of powerlessness on the part of the poor. A study by the World Bank identifies ten dimensions of such powerlessness:

- Livelihoods and assets are precarious, seasonal and inadequate;
- The places where the poor live are isolated, risky, unserviced and stigmatised;
- The bodies of the poor are hungry, exhausted, sick and poor in appearance;
- Gender relations are troubled and unequal;
- Social relations are discriminating and isolating;
- Security is lacking in the sense of both protection and peace of mind;
- The behaviours of more powerful people is marked by disregard and abuse;
- Institutions are disempowering and excluding;
- The organisations of the poor are weak and disconnected;
- Capabilities are weak because of lack of information, education, skills and confidence.

Many of the poor interviewed for the *Voices of the Poor* study from which the above findings are taken have suffered the traumas of war, violence, hunger, sickness, debt, exploitation, exclusion, harassment, pain and fear.[32]

As Dreze and Sen have noted:

> ... in most societies, it is the case that that a person's ability to use electoral rights, to obtain legal protection, to express oneself in public, and to take advantage of democratic institutions in general tends to vary with class, education, gender and related characteristics. Dreze and Sen (2002), p. 353

Empowering the poor is about how to reduce these vulnerabilities. It requires action in terms of enhancing income security, establishment of property rights for the poor, greater gender equality, better delivery of public services, elimination of corruption and establishing an attitude of respect and service by public servants – to mention only a few issues.

Experience suggests that imaginative solutions can be found if there is a political will. For example, a major innovation that has helped to empower the poor in recent decades is the establishment of Grameen Bank-type micro-credit schemes, inspired by Muhammad Yunus of Bangladesh. Reviewing the impact of these schemes, some researchers have found that they raise the income/assets of at least some participants, that they diversify income sources and that the focus on women has contributed to reduced fertility and a drop in child mortality. Why this effect on fertility and infant mortality? The authors comment:

> It may be that their economic power, new information, or new support system allows women to take more control over their child-bearing decisions.
>
> C. Leigh Anderson *et al.* (2002)

Enhancing the capacity of the poor to manage risks, and reducing their vulnerability to ill health, economic shocks and natural disasters are indeed a critical means of empowering the poor. So is expanding their assets and facilitating the transformation of their assets into property rights: as Hernando de Soto (2000) has observed, poor people do indeed have many assets which fail to get transformed into capital:

> ... in the midst of their own shanty towns, there are trillions of dollars, all ready to be put to use if only the mystery of how assets are transformed into capital can be unraveled.

Secure property rights make assets fungible, and help the poor to participate in credit markets.

8

The Washington Consensus and Pro-poor Economic and Social Policies

If it is accepted that economic growth that is pro-poor and pro-democracy in character has the maximum impact on poverty reduction, how can the global community play a role in supporting such growth? It can be argued that while the Washington Consensus (Annex D) that has guided international policy in supporting development has served well in shifting the stance of policy away from dirigiste regimes towards more market oriented-approaches, it needs to recognise that markets have to be complemented by non-market institutions if they are to work in a pro-poor direction. Unequal ownership of assets and access to credit or education and training put the poor at a disadvantage in participating in the market economy; therefore, if the poor are to gain from market-oriented reforms, non-market institutions – for example subsidised training or micro-credit institutions that do not insist on collateral – are needed to make markets work for the poor. Also, it is well known that markets under-perform in generating public goods such as a clean environment, basic education or health that carry huge externalities. The state or civil society will therefore have to assume a role in the production of such goods. While there is a recognition of this, some believe that in practice the Washington institutions rely on market solutions to a range of problems that can best be tackled by non-market processes and institutions.

Over all, the Washington Consensus needs to give place to a new paradigm that takes account of the above, and of the following:

- The interplay between political and economic forces, particularly in regard to the links between the quality of economic growth and democracy;
- The possibility that growth can be associated with a range of poverty outcomes;
- Poverty reduction is more than reduction of income poverty;
- Where countries are today affects where they can go; one size does not fit all;
- The importance of getting policy sequencing right;
- The need to create incentives for the social groups in power to accept change;
- A policy that makes sense when pursued by one country may not make sense when pursued by all – for example, the promotion of commodity exports through competitive devaluation (the so called 'fallacy of composition');
- The need for global governance to move in step with global developments;

The global community has already come a long way in moving towards the above positions. It is now accepted that, for example:

- Policies that support good governance, gender equality, education and health should receive high priority in international assistance for development;
- There should be greater awareness of the poverty implications of structural adjustment programmes; that poverty reduction strategy papers (PRSPs) should become a part of country assistance programmes;
- More attention should be paid to sequencing, including in regard to privatisation and liberalisation of the capital account.

The World Bank has pioneered Comprehensive Development Frameworks and, together with the IMF, it requires PRSPs in connection with debt forgiveness under the aegis of the Highly Indebted Poor Countries (HIPC) Initiative (see below). In 1999 the IMF established a Poverty Reduction and Growth Facility (PRGF) to replace the Enhanced Structural Adjustment Facility. While these are welcome developments which enable a greater focus on poverty focus, it can be argued that they need further attention and refinement. Some have called for greater public participation, more systematic incorporation of poverty and social impact assessments, greater emphasis on protecting the share of expenditure going to social sectors such as education and health, flexibility in meeting targets in the light of exogenous events and longer-term finance commitment to make these programmes more effective.

In the context of poverty reduction, it can also be argued that global action falls short of what is needed in several other areas. These include:

- Trade liberalisation;
- Aid and debt;
- Reform of the international financial architecture;
- New technologies;
- Pro-poor health policies;
- Pro-poor education policies;
- Reform of global governance.

We discuss these issues in the sections that follow.

9

Trade Liberalisation

The steady liberalisation of world markets for goods and services in the postwar period has underpinned an enormous increase in global prosperity. Trade enhances efficiency and factor productivity and by opening markets for efficient producers it boosts growth. In addition, as noted above, open trade regimes help to combat corruption and promote good governance by eliminating rent-seeking opportunities; they are thus good for democracy and poverty reduction.

Having said that, it is also important to recognise that: (a) the sequence of reform in regard to trade liberalisation could be of some significance in regard to its overall impact on growth and poverty; and (b) that while trade *per se* is good, the current international trade regime hurts the poor.

9.1 Sequence of Reform

Several scholars have argued that while trade liberalisation can bring immense benefits, unless trade liberalisation is undertaken in such a way that the factors of production can move into expanding high productivity areas, it can cause net losses to a country and may enhance poverty. As Joseph Stiglitz (2002) argues:

> Trade liberalisation is supposed to enhance a country's income by forcing resources to move from less productive uses to more productive uses ... But moving resources from low-productivity uses to zero productivity does not enrich a country, and this is what happened all too often under [structural adjustment programmes]. ... It takes capital and entrepreneurship to create new firms and jobs, and in developing countries there is often a shortage of the latter. ...
>
> The most successful developing countries, those in East Asia, opened themselves to the outside world but did so slowly and in a sequential way. These countries took advantage of globalization to expand their exports and grew faster as a result. But they dropped protective barriers carefully and systematically, phasing them out only when new jobs were created. ...
>
> The fact that trade liberalisation fails to live up to its promise – but instead simply leads to more unemployment – is why it provokes strong opposition.

Gustav Ranis, Director of Yale Centre for International and Area Studies, USA, takes a similar view. He writes:

> ... the conventional IMF wisdom emphasises import liberalisation from word go, while critics point out that 'learning by doing may require a prior period of import substitution.

After all, with the exception, historically, of England, and more recently, of Hong Kong, successful development has always seen a period of infant industry protection – hopefully mild and brief – precede the effort at competitive entry into world markets with the help of import liberalisation.[33]

While one may dispute whether England was an exception to the Ranis insight, the central point here is that unless the liberalising country sets in train competition measures that would enable its tradeable sectors to compete well, premature reform could be damaging. Of course, these arguments could be exploited by policy-makers to go to the other extreme of export pessimism and lose out from participation in the growth of world trade altogether, at severe long-term cost. This possibility arises because very high tariffs and other restrictions on imports could raise input costs to such a level that the capacities created under protective regimes become uncompetitive in world markets, as the experience of India before the economic reforms of the 1990s bears out. One also needs to reckon with the danger that high protection creates its own vested interests, locking the country into a semi-permanent protective regime, until a crisis develops. The trick then is to discover where the balance lies, and find room for the political processes needed – and that that might involve the invocation of external pressure for change. This argues for a more nuanced approach and proper sequencing – as Ranis calls for in his letter – rather than an all or no-trade reform stance.

9.2 Why the Present Trade Regime Hurts the Poor

Following the Uruguay Round, there was widespread disappointment among many developing countries that, while the industrialised countries pushed for liberalisation in the products they exported, they continued to protect those sectors in which the developing countries had a comparative advantage: agriculture and labour-intensive manufactures such as textiles. As a result of these restrictions, industrial country tariffs on imports from developing countries are on average four times those on imports from the other industrial countries.[34]

It is estimated that the benefits lost by developing countries from these restrictions amount to some $100 billion a year – twice the ODA flows to developing countries. A World Bank calculation showed that sub-Saharan Africa, the poorest region in the world, saw its income decline by 2 per cent as a result of the Uruguay Round agreement.[35]

The barriers to the exports of developing countries are in those sectors where growth could have benefited the poor of those countries; at the same time, the agricultural subsidies in the industrial countries, amounting to one billion dollars a day, largely benefit the richer farmers of Europe and the US. The policy of subsidies and trade restrictions thus increases inequalities in both poor and rich countries.

For example, as *The Economist* of 1 June 2002 noted, Uganda faces a 164 per cent

tariff on peanut exports to the US; 93 per cent of the Japanese market is reserved for Japanese producers; and if Ugandans try to sell sugar to Europe, 'they must hack their way through a jungle of rules so thick that even experts cannot get through it!'.

Industrial countries have until 2005 to liberalise trade in textiles and clothing; the liberalisation undertaken so far is very limited.

The Uruguay Round has also failed to produce any agreement on the movement of natural persons, i.e. labour – an agreement that holds great potential for reducing poverty. (After the events of September 11, even the limited movement of labour that currently exists has become even more difficult.) This denial of opportunities for economic migration of unskilled labour is in contrast to the experience of Europe when it was industrialising. For example, open migration from Europe between 1870 and 1910 to the New World – amounting to some 13 per cent of its labour force – reduced pressures on Europe's poor rural areas and helped to raise productivity.[36] It could be argued that the movement of unskilled labour is of benefit to both the sending and receiving countries, as many of the latter find their populations ageing. The development of an institutional framework that is non-discriminatory – for example, that accords national treatment and follows the WTO practice of most favoured nation (MFN) provisions – could also help improve transparency and consistency in this area of trade in services[37] and may help stem the tide of illegal migration that tends to criminalise people. As illegal migrants operate outside the 'white' economy, and become prey to money laundering and terrorist influences, such a step is highly desirable on other than strictly economic grounds.

It is widely recognised that the Trade Related Aspects of Intellectual Property Rights agreement (TRIPS), reached in the Uruguay Round, has been generally more beneficial to the industrialised countries than to the developing countries, who are net importers of technology (see also Section 14 below).

The recent increases in agricultural subsidies in the US, and the frequent resort to anti-dumping rules, are harming the world trade system.

The global commitment to reduce poverty has thus not translated into corresponding action in the area of trade.

The Everything-but-Arms (EBA) initiative of Europe, which offers restriction free entry to the exports of the Least Developed countries, the US African Growth and Opportunity Act and other such initiatives (including that by Canada) are welcome developments – though they could be trade distorting as they favour one group of developing countries against the other.

The Doha Work Programme, now commonly referred to as the Doha Development Agenda, launched in November 2000 sets out to correct some of these wrongs, including issues of implementation. The follow-up, however, has been slow; it needs to be seen whether there is sufficient political will to make progress in such areas as agriculture, where reform has become linked with inter-country distribution of gains and losses

within Europe. But the granting of fast-track trade negotiating authority to the President of the United States by the House of Representatives in July 2002 augurs well.

In pursuing the Doha Agenda, it is important to guard against the risk of linking trade liberalisation with environmental and labour standards, as some countries are keen to do. As David Dollar and Aart Kray (2002), two World Bank economists, have noted: 'such measures would be neo-protectionist in effect, because they would thwart the integration of developing countries into the world economy and discourage trade between poor and rich countries'. One may also recall the position of the Commonwealth Heads of Government who opposed such a linking:

> We fully believe in the importance of upholding labour standards and protecting the environment. But these must be addressed in an appropriate way that does not, by linking them to trade liberalisation, end up effectively impeding free trade and causing injustice to developing countries.
>
> The Fancourt Commonwealth Declaration (1999)

If the global community is to translate its commitment to reduce global poverty into meaningful action, the single most important measure it can take is to dismantle the barriers to the exports of developing countries, and not allow either visible or invisible barriers to impede trade.

10

Aid and Debt Cancellation

If we take the view that peace, good governance and pro-poor growth policies can go a long way towards reducing poverty, then the resources required for poverty reduction are less of a problem than might be implied from a continuation of present trends. If, added to that, the global trade regime was to become pro-poor and systemic improvements to the global system were to reduce the vulnerability of the poor through less exposure to financial crises (see the next Section), then the outlook would seem to improve even further. It can also be argued that as governance improves, poverty is reduced and political stability develops, there will be enhanced private financial flows to such countries, filling the resource gaps in the context of combating poverty. Based on hopes such as these, African leaders expect that the NEPAD initiative will lead to an additional inflow of $64 billion per year into the continent. As against this, however, we need to bear in mind that:

- Special measures are required to meet the significant costs of peace-building and post-conflict reconstruction in some war-torn poor countries such as Sierra Leone;
- The gains from dismantling barriers to the exports of developing countries are still a distant prospect and may not necessarily flow to countries where the need is greatest;
- Some countries suffer from near desperate poverty that leaves little room for resource mobilisation with the best political will;
- There is a possibility that private resources will not be forthcoming to finance investments in:
  - health and education
  - basic infrastructure that is capital intensive and has long gestation lags such as roads and railways
  - countries that do not enjoy good ratings in international markets
  - small and island states that suffer from particular vulnerabilities, and cost disadvantages.

10.1 Official Development Assistance

The global community will, therefore, have to play a significant role through provision of ODA – with enhanced emphasis on grant-in-aid – if poverty levels are to be reduced.

How much additional finance is required? There are no accurate estimates, partly because the canvas is so large. If, however, we take the achievement of the Millennium

Development Goals as as our initial frame of analysis, including action in regard to deep poverty, child mortality, HIV/AIDS, access to clean water, education and gender-related targets, calculations by the UN and others suggest that a flow of $40–70 billion is required in addition to the current $56 billion a year in ODA. That is a doubling of aid, amounting to about 0.5 per cent of GNP of the industrialised countries, less than the 0.7 per cent target agreed at the UN General assembly in 1970.

What prospects are there that the global community will mobilise such additional resources? Aid declined by more than 10 per cent in real terms between 1990 and 2000 – at a time when the developed world enjoyed the longest boom of the post-second world war era – and it currently constitutes only about 0.22 per cent of the combined GNP of donor countries. In 2001, the British Chancellor of the Exchequer, Gordon Brown, called for an increase in ODA from $50 to $100 billion per year by 2007. While initially this appeal seemed to fall on deaf years, the announcements by the Bush Administration at the UN Monterrey Conference in March 2002 that it proposes to increase aid by $5 billion a year by 2006, and the announcement by EU Heads of State and Government of a new target of 0.39 per cent of GNP, representing an additional $7 billion a year, to be achieved by 2006, represent hopeful developments. The UK Government has already pledged that it will increase its total aid to 0.4 per cent of its national income by 2006.

Despite these positive developments, in the absence of fresh efforts by the donor community, the gap between what is required and what is likely to materialise still remains large.

10.2 Other Sources of Aid

Are there other avenues of aid that one might look to to make up the shortfall? Recently, George Soros (2002) made the interesting proposal that the global community should agree on and allocate additional special drawing rights (SDRs) accruing to richer countries to finance the costs of public goods such as health, education, bridging the digital divide and judicial reform. Under his proposal, the government-sponsored poverty reduction programmes would be excluded and be left to be financed by the IFIs. He suggests that his proposal should cover the 21.43 billion allocation of SDRs already authorised by the IMF in 1997, and currently waiting ratification by the US Congress; if this was agreed, nearly $18 billion, equivalent to the rich country allocation, could be made immediately available for international assistance. This could be followed by fresh special allocations of SDRs for the purpose of financing public goods. Given that the ratio of SDRs to global trade has been declining – and the holding of international reserves by developing countries in the currencies of major industrial countries such as the US dollar, the Euro and the Yen represent a real resource transfer unless offset by grant aid – there is considerable merit in taking this proposal seriously. Under current global conditions, when deflationary pressures are threatening global recovery, the fear

of inflation need not deter such action; and it has the additional merit that it does not have any budgetary implications for the industrial countries, and that it avoids the 'free-rider' problem.

Another suggestion that is made from time to time is that a part of the gold reserves of the IMF should be sold and the profit used to enhance aid flows to the poorest countries.

In this context, it is also important to recognise the contribution being made by private voluntary flows and NGOs to financing development, which amounts to some $6–7 billion a year (or about 8 per cent of ODA, of which about $4 billion is from government sources) and the potential for further increases. Contributions from NGOs such as Oxfam have the merit of reaching the poor at ground level: thus, the value of each dollar spent in terms of poverty reduction is high compared to official assistance. On the other hand, it needs to be said that NGOs, that are self-selected, can be driven by motives other than support for poverty reduction and deepening of democracy; the predominance of northern NGOs, in which local people do not have ownership, is also a matter of some concern in several countries where neither the Government nor the public have the capacity to monitor their activities, and the accountability and transparency of the operations of some NGOs are in question.

10.3 Aid Effectiveness and the Allocation of Aid

Poverty is real and the global community should help reduce it. But some people ask: is aid effective in reducing poverty?

Disappointment with aid performance arises partly because of donor country behaviour, and partly because of poor governance and utilisation in receiving countries.

It can be contended that donors have several motives for giving, which are not always consistent with the allocation of aid so that it has the greatest impact on poverty. The motives include historical links, solidification of regional ties (for example in the case of Japan) and the pursuit of strategic interests (for example voting in the UN, arms sales). Thus, some of the disaffection with the impact of aid on poverty reduction does not reflect the intrinsic ineffectiveness of aid, but rather the large share of aid that is not allocated on the basis of the quality of policies or projects and the number of poor people. Aid going to low-income countries has in fact fallen from 61 per cent of total aid in the early 1980s to 56 per cent in the late 1990s.

To achieve greater impact, one could argue that aid should be redirected towards countries with high levels of poverty and good governance – as the World Bank is trying to do. This, however, carries significant implications in terms of the regional distribution of aid: the World Bank, for example, found that a doubling of aid that is distributed according to what it calls the 'quality of policies' and the level of poverty implies that South Asia's share would increase from 11 to 45 per cent; that of sub-Saharan Africa would remain unchanged; and that of the other parts of the world – which include Latin America and Central Asia – would decline sharply from about one-third to 4 per cent.

The import of a focus on poverty into the allocation of aid would thus have significant geopolitical implications. Clearly, the global community will have to debate these issues in terms of how best it can support democracies in achieving poverty reduction.

For aid to become more effective, it is also necessary to untie aid – tied aid constituted some two-fifths of bilateral flows in 2000; and was higher at 50 per cent in respect of the least developed countries, as food aid and technical assistance tend to be more tied than other forms of aid.

A particular area for attention is the lack of donor co-ordination that reduces the effectiveness of aid. As James Wolfensohn, President of the World Bank, noted:

> ... too many rich countries are using their aid programmes to satisfy domestic interests, tying aid to national procurement, or are 'planting flags' on isolated projects in the developing world, only to see their foreign assistance used less effectively because of lack of coordination.[38]

The lack of aid co-ordination imposes multiple standards and reporting requirements, prevents the formation and pursuit of coherent sectoral plans and wastes precious administrative resources of the developing countries. There is thus a case for harmonisation of procedures, adoption of sector-wide approaches, greater donor specialisation, more capacity building and greater donor flexibility in some donor requirements. The preparation of good practice papers that the Development Assistance Committee (DAC) of the OECD is promoting is a step in the right direction. Some non-OECD countries are associated with this work, but it is important that the process is as inclusive as possible. It is also encouraging that aid co-ordination has received attention at the Spring 2002 DAC meeting. It needs to be borne in mind, however, that one should not devalue a degree of pluralism in the donor community – so that mistaken policies on the part of heavyweight donors do not subsume all, destroying space for bilateral dialogue at the international level.

10.4 Debt Forgiveness

The external debt of developing countries has increased by 40 times in the 30 years between 1970 and 2000, and debt service has grown even more rapidly. The debt service of low-income countries,where most of the poor of the world live, currently exceeds fresh inflows, and net transfers in 2000 are a negative $29 billion.[39] There is recognition that the debt burden of some of the poorest countries is unsustainable. The HIPC Initiative, launched in 1996 and enhanced in 1999, seeks to address the burden of official debt of the poorest countries that amounts to some $150 billion in 1999 nominal terms. Some of this debt – possibly as much as half – was contracted by authoritarian or dictatorial regimes in which the people of the countries had little voice; and some of the official debt involved tied credits involving adverse procurement conditions. It is right, therefore, that the international community has been addressing the issue of debt relief

for these countries. The London and Paris clubs of creditors have also been dealing with the rescheduling of private and bilateral official debt and have been taking several initiatives. The HIPC Initiative, while bringing some relief, particularly by reducing the overhang of debt, is not adding to the cash flow of the indebted countries in a significant way:

- By June 2002, 26 countries had benefited from the HIPC Initiative. However, while the debt relief granted will amount to about $25 billion in net present value terms, the actual reduction in debt service is small – estimated at about $ 1 billion.

- As recognised by the Kananaskis G8 Summit in June 2002, the HIPC Initiative is not delivering the relief it has promised:
  - not all creditors have agreed to reduce their HIPC debts;
  - the expected financing needs of the Initiative have not been fully met;
  - as a result of weaker growth and export commodity prices, the debtor countries are in a far worse position than initially projected, with the result that they risk not being able to reach the Completion Point – i.e. the point when creditors are satisfied that the country concerned has taken the necessary actions to make its debt sustainable if a part of its debt is cancelled.

It can be argued that in so far as debt relief under the HIPC Initiative is financed from a stagnant or declining ODA budget in the donor countries, it does not add to total development assistance – it merely diverts resources from the moderately indebted to the severely indebted countries: this may be justified if the overall impact of such diversion is greater poverty reduction, even though it will have implications in terms of inter-country distribution.

The linking of the grant of relief under the HIPC Initiative to comprehensive poverty reduction strategies, agreed with the IMF and the World Bank, reinforces the poverty focus of aid. However, the implementation of the agreed strategies requires a degree of macroeconomic stability which many poor countries find difficult to achieve because of exogenous shocks such as an uncertain external environment, vulnerability to natural disasters and exposure to poverty-induced conflict. That poor country commodity producers face a particularly uncertain external environment has been well stated by Kenneth Rogoff, Director of Research, IMF:

> Many African countries rely heavily on exports of a small number of primary commodities (for example, cotton, coffee, cocoa, soyabean, metals and, in some cases, oil). All are subject to extraordinary price volatility in world markets. Add to that the extreme unpredictability of international aid flows, and one can see that macroeconomic stabilisation would be difficult to achieve under any circumstances.
>
> *The Economist*, 3 August 2002

These difficulties are real as we well know from the experience of Uganda: when coun-

tries are confronted with rigid time frames and performance criteria against such uncertainties, domestic economic management does become complex and risks the loss of ownership by the countries concerned. Relief also takes a long time in coming, as donors wish to be assured that a country is truly set on reform and a sustainable path. These considerations have led many to argue that the terms of relief under the HIPC Initiative should be made more generous and flexible, and that relief be more rapidly triggered.

As Birdsall and Williamson (2002) argue, there is a case for deeper debt cancellation, bringing more countries under its net, and making greater efforts to ensuring that these countries are not pushed back into unsustainability for a decade at least.

That the HIPC Initiative is a regular item of discussion at the G7/G8 summits, and that there is now regular interaction between the G7/G8 and the leaders of Africa are welcome developments.

11

Reform of the Financial Architecture

The present international financial scene is characterised by increased volatility in exchange rates and flows of capital, financial crises and contagion affecting the macroeconomic stability of many countries. The latest instance of this is the crisis engulfing Latin America, affecting Argentina, Brazil and Uruguay. Besides directly affecting the countries concerned, increased financial risk dampens global growth prospects and thus enhances poverty worldwide. Despite new measures such as the institution of the Contingent Credit Line in the IMF, the drive to promote financial standards and codes and the like, it is clear that the international financial architecture requires significant reconstruction. It is contended that neither the IMF's lending resources nor its policy have adjusted to the fact that the needs of balance of payments financing in the contemporary world are not dictated just by the current account flows, but by the much larger capital flows that are subject to sudden swings in sentiment, often unrelated to changes in economic fundamentals. A consequence of this is that it forces the IMF to adopt pro-cyclical rather than anti-cyclical stances in policy, and to divert its limited liquidity to attend to the needs of the relatively rich emerging market economies. The criticism has also been made that the IMF, by failing to recognise in time that premature capital market liberalisation can be harmful, has contributed to an exacerbation of global financial instability (Stiglitz, 2002). It is further contended that the lack of agreed orderly procedures for debt standstills and dealing with defaults is also making it difficult to contain financial crises to manageable proportions. It is suggested, therefore, that the objectives of the redesigning of the global financial architecture should be to:

- Enhance the capacity of the IMF to lend in times of crisis through increase in lendable resources, including through SDR allocations;
- Improve responses to crises, including through greater automaticity in the availability of finance;
- Allow for debt standstills and provision for bankruptcy;
- Reduce recourse to big official bail-outs, and more equitable sharing of the burden between creditors and debtors;
- Improve banking regulation to achieve greater financial stability, adapted to the circumstances of each country;
- Improve risk management in relation to exchange rate volatility;

- Build confidence through greater accountability and transparency;
- Improve safety nets;
- Promote greater inclusiveness in the global decision making processes.[40]

These steps constitute a large agenda. While the current efforts to promote agreement on collective action clauses which make it easier to restructure debt by allowing a majority of creditors to impose a deal, and a judicial procedure to arbitrate between creditors in case of default, should help soften the impact of financial crises, a reform of the global financial architecture going beyond these measures is needed.

This will require high level political processes that include poor country democracies. The G20, which brings together 20 major industrial and developing countries, is a step in the right direction in promoting inclusive political processes; but the redesigning of the global financial architecture requires a step change in global consultative processes. We revisit the global governance issues further below.

12

Pro-poor Health Policies

Poor health not only undermines a person's self-esteem but also reduces their productivity. As Jeffrey Sachs has noted, where malaria prospers, people usually do not. While in the parasite's grip, people usually cannot work and their relatives must tend them, rather than look after the crops. Jeffrey Sachs believes that in Tanzania, where 94 per cent of people are at risk of catching the disease, people would be twice as rich without malaria.[41] Malaria is not the only disease that has such disastrous consequences; lack of access to clean drinking water, sanitation and the prevalence of tuberculosis have similar dramatic impacts on the health and productivity of the poor.

As Dreze and Sen (2002) have observed, the burden of disease falls very unevenly on different sections of the population.[42] Improving the health of the poor requires both a better health policy – spending money where it has greatest impact in reducing morbidity and mortality – and enhanced budgets for health. The healthcare systems in many poor countries are often captured by the elites; where the private sector is the main source of delivery, the poor – who are not served by either the public or the private sectors – are often left to fend for themselves.

As the Tanzania Essential Health Interventions Project (TEHIP), a joint venture of the Health Ministry of Tanzania and the Canadian International Development Research Centre (IDRC), shows, by redirecting money towards the diseases that cause the most suffering but are the cheapest to treat (for example malaria and diarrhoea), the health of the community, particularly the poor, can be improved dramatically with visible benefits to their well-being.[43] The success of Cuba and China in providing basic health care also shows the potential for public action.[44]

While much can be done through a better health policy and redistribution of public health expenditure, more money is also needed. Health spending is as little as $10 per head per year in much of sub-Saharan Africa. This needs to rise, if one contemplates the additional demands arising from such diseases such as HIV/AIDS. Some estimate that poor countries will eventually need to spend at least $30–40 per head per year, far above the present levels. While part of the increase in delivery must come from cutting waste and corruption and a reallocation of the national budget, a significant part of the additional spending needs to be funded by the global community as part of its efforts to combat poverty. Last year, the Commission on Macroeconomics and Health, which is backed by the World Health Organisation, called on the richer countries to donate an extra $27 billion an year towards grappling with poor countries' health problems.

The experience so far with regard to the global community's efforts to raise money for combating HIV/AIDS is not promising. When the Global Fund to fight HIV/AIDS,

tuberculosis and malaria was launched, UN General Secretary Kofi Annan announced that it would require $7–10 billion a year once it was up and running. Since then, rich country governments (together with some contributions from private sources such as the Gates Foundation and others) have pledged $2.1 billion, but only $300 million of it has so far materialised. Given the high incidence of HIV/AIDS and its impact on the poor and women in some countries, and its potentiality to spread to others, more determined action is needed.

Action by the poor countries is constrained by the high cost of drugs, underpinned by the current intellectual property regime and by a lack of capacity to undertake research and develop drugs appropriate for the diseases afflict them. As the Commonwealth Heads of Government called for in their Fancourt Declaration, there is a need for the world community to extend 'the benefits of global medical research through the provision of drugs at affordable prices to the poor in developing countries'.

13

Pro-poor Education Policies

Like health, education is both empowering and income enhancing in its impact on the poor. A literate person is more likely to be able to assert his or her property rights, the right to a minimum wage, to obtain credit, to follow instructions regarding the use of medicines or fertiliser and to participate in the political process. And as education promotes self-esteem, it helps the poor to assert their place in society. Basic education is also a catalyst for change: as children from different social groups and gender sit together in school, social barriers are broken down and social prejudice dispelled. If there is one lesson from development experience that rings out loud and clear, it is the profound impact that the education of a girl-child will have on political freedoms, gender equality, and poverty reduction.[45] The experience of South Korea, Sri Lanka, Kerala (India) and Mauritius bear out these expectations.

It is in appreciation of the enormous benefits of education for peace, democracy and development that the Dakar Summit in April 2000 adopted six comprehensive goals:

- Improving early childhood care and education;
- Ensuring by 2015 that all children have access to, and complete, free and compulsory primary education of good quality;
- Ensuring equitable access to life skills programmes;
- Achieving a 50 per cent increase in adult literacy by 2015;
- Eliminating gender disparities in primary and secondary education by 2005;
- Improving all aspects of the quality of education.

But, as noted earlier, illiteracy remains high, and progress in reaching these goals is far from satisfactory:

- More than 100 million children worldwide are out of school, and 60 per cent of these are girls;
- One in four children does not complete five years of basic education;
- Nearly one billion adults are illiterate; all of them live in developing countries;
- The Dakar goals are at risk: more than 30 countries are not on track to achieve universal primary enrolment by 2015. Given current trends, 75 per cent of those out of school in 2015 will be in Africa;

- Completing primary education of good quality is the indicator of success, and almost 90 countries are not on track to achieve this. Also, 35 countries are not on track to meet the 2005 gender goals at primary and secondary levels.

However, in the absence of public action in far too many developing countries in providing basic education and health care, the private sector is stepping into the gap. The result is that the poor are excluded from these services by lack of income; and as the rich find that their needs are effectively met in this way, the elites lose interest in pressing for public action. Indeed, public institutions suffer as the more able teachers, doctors and nurses find it more profitable to work in the private sector, further compounding the problem. It is, therefore, necessary to adopt pro-poor policies to achieve effective action.

Achieving the Dakar goals requires pro-poor policies at national levels and significant mobilisation of international support.

Governments at national level must enlist local communities, private trusts and NGOs, and increase the share of national budgets devoted to high quality primary education, at the same time giving greater priority to the education of girls and women. As the wide disparities in the levels of education among developing countries shows, success is not beyond their wit or resource if there is political will to learn from good practice and implement it. For example, the literacy drive in Madhya Pradesh in India that has handed over power to a network of village committees has seen the literacy rate in that state rise from 44 to 66 per cent in the past eight years – almost double the rate at which literacy has grown in the rest of the country.[46] Such examples – and the example of the TEHIP project in Tanzania in the context of health quoted earlier – show the potential.

That education policies in many poor countries are now effectively driven by poverty-reduction strategies – enabling sector-wide approaches and better attention to education and health – is to be welcomed.

Having said that, it is also clear that the material, institutional and human resources at the disposal of poor countries are not sufficient to achieve the Dakar goals, and that support from the global community will be needed to reach them. The G8 governments agreed in Dakar that 'no countries seriously committed to *Education for All* will be thwarted in their achievement of this goal by a lack of resources'. Besides the pledges made at the Monterrey Conference in 2002, there is no indication of further progress. In this context, the pledge by the G8 Leaders at Kananaskis in July 2002 to support the efforts of UNICEF and other UN agencies to promote access for girls and gender equality in education should be welcomed. Overall, as discussed above, much greater support is needed from the global community than has been placed on the table so far.

14

New Technologies

The availability of new technologies that have the potential to enhance the capabilities of poor people and strengthen democratic processes is a development of great significance and benefit to poor country democracies fighting poverty. The technologies that helped launch the green revolution, medical advances in combating smallpox, polio, river blindness and tuberculosis, and the new information communication technologies are all examples of the potential that new technologies hold for poverty reduction. The ongoing research on combating HIV/AIDS and malaria, and the unravelling of the genetic code are further examples of what is feasible. They give rise to the hope that the elimination of deep poverty may after all be within the grasp of humanity in our times.

However, the resource requirements, the lack of human institutional capacity and the requisite regulatory frameworks, and an unhelpful global regime in regard to intellectual property rights means that poor countries are missing out on the knowledge and innovation revolution that the exploitation of new technologies promises.

The digital divide between the poor and the rich of the world – between and within countries – illustrates the potential, as well as the failure, in this regard. As the Commonwealth Expert Group on Information Technology has noted, the new information and communication technologies can help combat poverty and deepen democracy in many ways: through improved access to information and distance learning, better delivery of public services, improved governance and better functioning of markets.[47] By cutting costs for firms (for example through stock control and computer aided design processes) and saving time in communications and record keeping, they can enable productivity gains and higher economic growth. However, despite the falling costs of developing the necessary ICT infrastructure and the growth of 'connectedness' in many parts of the world, the gap between the poor and rich countries remains large – and is not closing. The cost of Internet access remains prohibitively high in many poor countries both because of lack of proper infrastructure and low per capita incomes: monthly costs range from 107 per cent of per capita GDP in Uganda to 1.2 per cent in the US! The G8's DOT Force, the Global Knowledge Partnership, the World Bank, the Commonwealth and many others, including several bilateral private initiatives (for example Hewlett-Packard) are working to bridge the gap. Part of the difficulty is that poverty, which often also means poor human development, limits the scope for action. Bridging the digital divide is thus tied to a general reduction of poverty levels.

As the World Bank recognises, the agreement reached in 1994 on TRIPS is:

> ... generally more beneficial to industrial countries than to developing countries.

> Developing countries are net importers of technology, while, in general, industrial countries are the producers of technology. Industrial countries therefore reap the static benefits of higher prices resulting the market power provided by IPRs at the expense of developing countries'. *World Development Report* (2002), p. 146

While many recognise the yawning gap that exists between industrial countries and the developing countries in the registration of patents and the costs of the present TRIPS regime, they justify it on the ground that it promotes research and development and the transfer of technology to developing countries. The evidence for this is rather less than certain, as the World Bank and others recognise. The poor see the fruit of life, but cannot reach it!

15

Global Governance

Many argue that: (a) global governance has not kept pace with new needs; (b) decision-making processes in global institutions do not give adequate representation to the voices of poor and small countries; and (c) global institutions are not sufficiently accountable and transparent.

15.1 Strengthening Global Governance

Why does global governance matter in the context of support for democracies in their attempts to reduce poverty? As we have argued in this paper, poor countries face many new challenges – for example the increasing incidence of conflict, terrorism, globalisation, HIV/AIDS, the degradation of the environment – and many believe that global governance has not evolved sufficiently to take account of these. We have already touched upon some of the lacunae in the present global arrangements in respect of some of these challenges, for example conflict resolution and the international financial architecture. Other suggestions raised in this context are:

- Giving a greater role to the UN through the creation of an Economic Security Council with the remit of achieving global financial and economic co-ordination and co-operation between the industrial and developing countries. If agreed, this would require a radical overhaul of the present global economic and social institutions. A more fruitful approach might be for the G7/G8 Forum to become more inclusive, as it is now beginning to be through regular interaction with African leaders. There might also be scope for biennial summits of a group of world leaders representing 20 or so countries, made up of a core group plus a rotating membership, with particular weight given to poor country democracies. This could be seen as a G8 plus formula.

- Consolidating the UN's fragmented development co-operation and assistance system into a single UN Agency for International Development (UNAID) that complements the Bretton Woods institutions.[48] Such a step might provide coherence of purpose and new energy, and avoid duplication and waste. On the other hand, the UN family has in it some efficient and some indifferently performing agencies; bringing them altogether risks the danger of the bad polluting the good. The suggestion requires careful consideration.

15.2 Decision-making Processes

There is wide consensus that the poor must have a strong voice in policy-making to make an impact on poverty reduction. This is as true at the international as at the national level. Many have argued that there is a democratic deficit at the international level, making it difficult for the concerns of the poor to find expression:

- There is a democratic deficit in the composition and functioning of the UN Security Council.
- While the clients of the IMF and World Bank are almost exclusively developing countries, the voting power in their decision-making bodies rests largely in the hands of the industrial countries.
- By convention, the heads of the IMF and the World Bank are chosen by Europe and the US, respectively.

The WTO, on the other hand, works by consensus, but some have identified a democratic deficit in its decision-making processes as well. For example, the *Human Development Report 2002* says:

> Although all countries have a seat and a vote in the WTO, actual decision making occurs in the green room – the small group meetings convened by the director-general and heavily influenced by Canada, the European Union, Japan and the United States. Most developing countries are usually excluded.
>
> *Human Development Report 2002*, p. 119

How can this democratic deficit be reduced at the global level? Any proposal based on a one-country one-vote principle would give small countries undue weight, out of proportion to the number of people they represent. A proposal that weights votes in proportion to the people that each country represents would improve matters, but would result in the dominance of China and India who together have nearly two-fifths of the world's population. Any proposal that does not recognise the varying economic and military strength of different nations risks being impractical and could not win the support of the electorates of the industrialised countries who might feel that they did not have a voice in the global institutions commensurate to their contributions. Until the concept of a 'common humanity' gains ground, and the people of the world are prepared to sacrifice national sovereignty in favour of more effective global governance, one needs to compromise and proceed in a pragmatic way. As the *Human Development Report 2002* says: 'Global governance ultimately has to balance power and principles, effectiveness and legitimacy' (p. 117).

Possible ways through which changes could be brought about are:

- The restructuring of the UN Security Council to make it more representative and

more democratic in its functioning. The UN General Assembly has established an open-ended working group to consider reform of the Security Council, and several proposals have been made for its consideration, including the expansion of its membership to better reflect the current balance of power in the world, better geographical and developing country representation, a greater use of the rotation principle, and reform or abolition of the veto power of the permanent members.

- Revising voting rights in the IMF and the World Bank by increasing the basic votes of each member. It is also suggested that the choice of heads of these institutions should not be confined to the citizens of Europe and the US; they should be chosen on the basis of professional competence. And there might be additional merit if such candidates can be found from the developing world, as that would enhance ownership of these institutions by the poor countries.
- Making the small group meetings in the WTO – which would be difficult to dispense with – more inclusive by allowing any country with a stake in the item under discussion to attend. There would be merit also in enhancing technical support and provision of information to small states and others who lack the capacity to follow the highly technical and legal discussions in the WTO negotiations; the Commonwealth is already seeking to do this to some extent.

15.3 Transparency and Accountability

There is a widespread belief that greater transparency in the workings of the international institutions, particularly the Security Council, the IMF, the World Bank and the WTO, would allow greater public debate, preventing possible mistakes in policy and promoting greater ownership of policy in the countries concerned. The value of transparency is acknowledged by the industrial and other countries at the national level, and much is done to promote access to information. In recent times, there has also been some movement at the international level. The UN Security Council now publishes an agenda in advance of meetings allowing for lobbying by non-members on specific issues. The World Bank and the IMF have also taken a number of steps: at the Bank, examples of openness include the release of PRSPs, summaries of board discussions and a number of project-related documents of value to the public. At the IMF, research is now available on its website and, with the approval of the governments concerned, disclosure and publication of policies and agreements with the Fund are also available. These are significant developments. However, the minutes of both institutions' board meetings remain secret. Some argue that they should be published; the arguments advanced against this are that they might affect the collegiality of boards' discussions and sentiment in markets. However, as many observers have pointed out, the policy of publishing the minutes of the Bank of England Monetary Policy Committee – albeit with a time

lag – has not affected its functioning, and may even have improved the market's understanding of the criteria underlying its discussions.

As regards the WTO, some have pointed out that the negotiations that lead up to agreements all take place behind closed doors, making it difficult to see where discussions are heading until it is too late.

Several observers have stressed the importance of accountability – that is, independent scrutiny of whether the institutions are performing well and achieving the impact expected of them. The IMF has published independent evaluations of the Enhanced Structural Adjustment Facility, and has recently established an Office of Independent Evaluation, which has now submitted its first report.[49] The Operations Evaluation Department at the World Bank undertakes extensive evaluations and reports directly to its board. Many feel that there should be much greater stress on independent assessments of the Fund's and the Bank's performance and that these assessments should be published, so that there can be greater knowledge and debate about the effectiveness of the policies pursued.

It is important to bear in mind, however, that monitoring and evaluation should not become process ridden to the point where those in charge of execution lose confidence and ability to lead. The possibility that premature disclosure of information could lead to destabilising speculative behaviour in markets also needs to be borne in mind in judging issues of transparency and accountability. Possible damage to the reputation of international institutions – at a time when one needs more rather than less international governance – might also be counter-productive.

C

Strategies for Action

This Part discusses possible strategies for winning global support for action by recognising win–win policies and the need to overcome the free-rider problem by global concordats. The contribution that socially-responsible business can make is also discussed (Section 16). Finally, the role of the Commonwealth in helping democracies to combat poverty both through direct action and through mobilising global support is discussed in Section 17.

16

Winning Support for Global Action

If there are many possible ways in which the global community can help poor country democracies achieve poverty reduction, why is action falling short of what can be done?

In answering this question, it may be useful to ask first why the global community should be interested in combating poverty, and then proceed to consider some possible ways in which it could be persuaded to be bolder in its approach.

16.1 The Strategic Interests of the Global Community

Is there any reason other than empathy with the world's the poor why the global community should make poverty reduction a priority? One could argue that there are several powerful reasons for this:

- The fragility of global peace and security, when deep poverty and authoritarian rule persist. The events of 11 September have added even greater urgency to combating deep poverty;
- The threats to the environment that poverty poses, with cross-border implications;
- The spread of disease that cannot be effectively controlled without tackling poverty – for example HIV/AIDS, tuberculosis and malaria;
- Poverty and conflict-induced migration, and the pressures that it brings with it;
- Limits imposed by the persistence of poverty on the growth of world markets.

As Commonwealth Heads of Government stated in their Fancourt Declaration of 1999:

> The persistence of poverty and human deprivation diminishes us all. It also makes global peace and security fragile, limits the growth of markets, and forces millions to migrate in search of a better life. It constitutes a deep and fundamental structural flaw in the world economy.

There are thus powerful reasons for determined global action for poverty reduction. Yet, as we have seen, the level of global support provided falls short of what is needed. Why? It could be argued that the necessary political will is lacking because of lack of full appreciation of the gravity of the situation. That well might be, even though, the events of 11 September have made people all over the world aware of the fragility of peace and security. Better understanding and dialogue among world leaders in forums such as the G8, the UN and various summits such as the biennial meetings of Heads of Commonwealth Governments, a more active role by the global think tanks, more scholarly work and

better advocacy by NGOs and the media will all clearly help in promoting a better understanding of what is at stake.

16.2 Win–Win Approaches

But should we not also ask: are there not, perhaps, deeper reasons than mere lack of appreciation of the gravity of situation for the lack of effective and adequate action to combat poverty? Is it not possible to argue that while there is a collective appreciation of what needs to be done, each nation is tempted to take decisions in the light of costs and benefits to itself? Despite appreciation of the value of combating poverty, individual nations may still not take action if they believe that other – possibly bigger – countries will take the steps needed (the free-rider problem). Or they may believe that the costs outweigh the benefits at the national level; or the threat of agitation by particular sections of their own population against the contemplated measures to combat international poverty may convince politicians that the international good is not worth the loss of domestic electoral support (for example France's opposition to the reform of the Common Agricultural Policy). In discussing how international action can best be promoted, it may therefore be useful to consider possible strategies by which coalitions can be built up internationally for greater action in combating poverty, in the light of the following typology of measures:

- **Win–win measures,** that benefit everybody (for example action against terrorism, reduced vulnerability to financial crises, support for international safety nets, better financial architecture, the issue of SDRs);
- **Zero-sum measures,** where benefits for one group can be achieved only at the expense of another (for example changes to the TRIPS regime, more democratic decision making in IFIs);
- **Short-term vs long-term measures** that distinguish between measures that can bring benefits in the short run (for example confiscation of the financial assets of terrorists) and measures that bring benefits in the long run but involve short-term costs (increased support for conflict resolution, peace-keeping, support for democracy, debt cancellation, increasing ODA);
- **The free-rider problem:** where action may be delayed because individual nations try to avoid costs in the expectation that others will pick them up (for example protection of the environment, combating HIV/AIDS and other diseases);
- **The compensation problem,** where action is delayed because of lack of political processes needed to compensate losers within nations even if the proposed measures are of net benefit to the nation as a whole (for example the dismantling of agricultural subsidies and removal of barriers to trade in agriculture);

- The need to achieve almost universal co-operation for measures to be effective (for example combating money laundering, halting the depletion of the ozone layer).

If considerations such as the above partly help to explain the failure to act despite the urgency of the problem, what particular measures can help facilitate action?

- **Collective concordats:** It can be argued that where the compensation or free-rider issues are holding up action, the forging of collective agreements by the nations concerned that are legally, or morally, binding can help movement forward. An example of this is the possibility of the EU collectively agreeing to dismantle subsidies for, and barriers to, trade in agriculture, so that each national leader can then try to convince domestic sectional interests that he/she has no choice. Another example is the Kyoto Protocol, even though it is disappointing that the country contributing the largest emission of harmful green house gases, the US, has not so far signed it.
- **Peer pressure:** Peer pressure and the invocation of the threat of selective sanctions – as has been done by the Commonwealth Ministerial Action Group – could be effective in promoting resolve for action.
- **Invoking the authority of the UN Security Council,** where universal co-operation is required and where the issue in question is of over-riding importance for the survival of humanity or the restoration of peace – as has been done in the case of combating terrorism.
- **Market boycotts by citizens** against the products of countries or companies which refuse to join collective action – for example the anti-apartheid boycotts of banks – could be a powerful instrument in changing perceptions about national costs of not taking action.
- **Action by civil society groups,** for example the Jubilee 2000 movement for debt forgiveness, that could help to build up electoral support.
- **The setting up of Eminent Persons Groups,** such as the Commonwealth Expert Group on Democracy and Development, to identify win–win policies, and build up cogent arguments for international action.
- The setting up of global trust funds for the provision of public goods and financing them through collective concordats, such as the scheme proposed by George Soros which proposes the allocation of SDRs for meeting the costs of public goods in specified areas.
- Concordats between developing countries and industrial countries such as NEPAD, proposed by the African leaders and welcomed by the G8.

One could think of other examples. The basic principle driving these suggestions is that in an interdependent world, there must be a willingness on the part of the rich as of the

poor to pool sovereignty and create binding agreements that not only help to overcome sectional interests at the national level, but also help to avoid the free-rider problem and secure better compliance. For such an approach to succeed, the major nations of the world should be willing to come to the negotiating table with a view to reaching agreement and abiding by it (the example of the US in regard to both the Kyoto Protocol and the International Criminal Court is not encouraging in this regard). The World Summit on Sustainable Development in South Africa offered an opportunity to agree an action-oriented agenda to tackle poverty and the problems of the environment, focusing on win–win approaches and ways of avoiding the free-rider problem.

An issue for consideration, therefore, is: is there scope for a wider application of the above principle than is the case already? If so, is the global community willing to seize this opportunity?

16.3 Socially-responsible Business

We noted above that poverty limits global markets. This is clearly of concern to global business whose profitability is linked to global prosperity. Global business also wishes to operate in a secure and peaceful environment. Is there not scope for global business to play a significant role in helping democracies to combat poverty?

We have already identified a role for global business in combating corruption. But there is much else it can do that would help to reduce poverty on the one hand and promote profitability on the other. For example, it could:

- Take positive action to protect the environment. By doing so, it could promote the long-term sustainability of its operations.
- Take a direct interest in promoting the education, training and health of the communities in which it operates. Such measures would enhance the likelihood of securing a more productive working force, helping to cut costs.
- Promote good corporate practice and build up confidence in the market economy.
- Be open to entering into private-public sector partnerships, where each sector brings its respective strengths to deliver projects or public services that have strong external economies.

One can see the potential. But will business be motivated to take such action?

One problem is the free-rider problem. Global corporations which have significant businesses in a country could over-ride this concern to some extent, as the external economies associated with poverty-reducing projects can become internalised as the benefits cut business costs and enhance demand for their products. As global businesses they could also enter into concordats with each other.

Where the free-rider problem is a real constraint, it may make sense for chambers of commerce or other business associations to establish guidelines and use peer pressure –

much as we expect the international community to exercise peer pressure against countries lapsing from democracy – and promote action. Governments might facilitate such action by allowing space for the corporate sector to play a positive direct role in undertaking projects that will help to reduce poverty, within established guidelines.

It is evident that there is considerable interest within the corporate sector in pursuing such courses of action. As the *Financial Times* has noted,[50] with a growing groundswell against globalisation, the private sector is now prepared to turn up at such forums as the Johannesburg Summit and face its critics. While some of the companies represented at the Johannesburg Summit were there to showcase existing projects, the big idea at the summit was the willingness of the corporate sector to enter into collaboration with governments and NGOs in supporting development projects. For example, Alcan, a Canadian aluminum company, is planning to help villagers in Bangladesh to remove arsenic from their water supplies. Vivendi Water, the French utility, is working with South African cities to improve water quality and sanitation services. The World Business Council for Sustainable Development and Business Action for Sustainable Development are also examples of growing interest on the part of the private sector in collaborating in the fight against poverty.

17

The Role of the Commonwealth

What role can the Commonwealth play in supporting democracies in poverty reduction? As we have noted at various points in this paper, the Commonwealth already plays a significant role in conflict resolution and peace-building and, through the Commonwealth Ministerial Action Group, exercises peer pressure on member countries which are violating democracy. It also reinforces the processes and institutions of democracy through observing elections and helping with capacity building. By linking countries at different stages of development, it brings greater understanding of the problems affecting which affect them, including why poverty persists and the problems democracies face in combating it. And it has a modest programme of technical assistance that is appreciated for its practical value in building up human and institutional capacities in democracies, as in the areas of good governance and pro-poor social and economic policies. Given such a backdrop, how can the Commonwealth play an even bigger role in supporting democracies in combating poverty? We believe that it could:

- Become a more visible symbol for tolerance and respect for pluralism, which in turn should help promote peace at national and international level;
- Attract greater attention to the complex challenges facing democracies and act as a catalyst in the international community to promote action that helps them;
- Enhance its peer pressure role in promoting democracy, good governance and pro-poor growth policies in member countries where action is lacking because of lack of political will at national level. This applies both to its industrialised country members (which could, for example, dismantle trade barriers against the agricultural exports of developing countries) and to its developing country members;
- Promote intra-Commonwealth co-operation in those areas where at present international co-operation falls short of what is needed – for example, sharing intelligence in the fight to combat terrorism;
- Enhance its technical assistance for member countries, focusing in particular on those areas where democracy and development are interconnected – post-conflict reconstruction, electoral processes and parliamentary institutions, the rule of law, human rights, good governance, gender equality and those activities that empower the poor such as property rights, micro-credit, education, health and reduced vulnerability to crises. Such a focus would have the double dividend of strengthening democracy and development at the same time.

D

Summary of the Issues

Part D sets out a summary of the main issues as discussed in the preceding sections of this paper.

18

Issues for the Consideration of the Expert Group: A Summary

This paper has attempted to outline issues related to the challenges confronting poor country democracies in combating poverty; the links between conflict, democracy, good governance and poverty; and how poor country democracies might best be supported in combating poverty. In this section, we summarise what we see as some of the main issues that the Expert Group may wish to address, drawing on the previous discussion.

A Poverty and Challenges Confronting Democracies

1. Does the Expert Group agree that poverty should be viewed as more than income poverty, as advocated by Amartya Sen? If so, what should be the scope of its definition?

2. How widespread is deep poverty? Is it increasing or decreasing? Is the Group satisfied with the assessment of the *Human Development Report 2002* regarding its trends?

3. Does the Group agree that the spread of conflict, problems of transition to democratic and market freedoms, globalisation, HIV/AIDS and the degradation of the environment constitute particular new challenges to poor country democracies in contemporary times, in the context of combating deep poverty?

B Support for Democracies for Combating Poverty

4. Given that violent conflicts lead to deep poverty, why do conflicts occur? How can one help resolve conflicts, help rehabilitate failed states and combat terrorism? Are the present international arrangements adequate in dealing with these issues? If not, what more can be done? Is there scope for an enhanced role for peer pressure or for a strengthened UN role? Is it worthwhile to revive the concept of UN trusteeship in respect of failed states?

5. Are there links between democracy, good governance and poverty reduction? Why does there seem to be such widespread disappointment with the performance of democracies in the 1990s when more and more nations have accepted the democratic ideal? What steps can be taken by individual countries and the international community to deepen democracy and good governance? How can corruption be effectively eliminated?

6. Is it valid to think in terms of pro-poor economic growth? Can one achieve different poverty outcomes for the same level of economic growth? If so, what particular policies will help pro-poor growth?

7. Do participatory growth and empowerment of the poor matter in reducing poverty? Or are they just false trails which get in the way of focusing on the central task of maximising economic growth as a means of poverty reduction?

8. Is the Washington Consensus the best guide to policy in the context of achieving sustainable poverty reduction? If not, in what way should it be fine-tuned or modified? Or should it be replaced by a new development paradigm?

9. Is the current world trade regime hurting the poor? In what way can the global community help poor countries in this context?

10. Are present aid levels adequate to achieve the Millennium Development Goals? Are there any other avenues through which financial support for poverty reduction could be enhanced? Is HIPC delivering? Can its scope be broadened?

11. Do the current attempts at reforming the international financial architecture go far enough, in the context of the objective of poverty reduction? If not, in what further ways should it be reformed?

12. What should be the nature of pro-poor health and education policies, given their central role in reducing poverty and promoting democracy? In what ways could current international efforts be strengthened?

13. What role can the new technologies play in combating poverty? How can poor country democracies be helped to take advantage of new technologies?

14. In the context of democracy and poverty reduction, are current global governance arrangements keeping pace with new needs? Is there a democratic deficit at the global level? Can the global institutions be made more accountable and transparent in their workings?

C Strategies for Action

15. Despite the recognition of the common interest that rich and poor countries have in reducing poverty, why does action fall short of commitment? Are there any strategies that could help build stronger action? Can NGOs and business play an enhanced role? If so, how can action by them be promoted?

16. What role can the Commonwealth play in helping poor country democracies combat poverty?

Annex A

The Harare Commonwealth Declaration

1. The Heads of Government of the countries of the Commonwealth, meeting in Harare, reaffirm their confidence in the Commonwealth as a voluntary association of sovereign independent states, each responsible for its own policies, consulting and co-operating in the interests of their peoples and in the promotion of international understanding and world peace.

2. Members of the Commonwealth include people of many different races and origins, encompass every state of economic development, and comprise a rich variety of cultures, traditions and institutions.

3. The special strength of the Commonwealth lies in the combination of the diversity of its members with their shared inheritance in language, culture and the rule of law. The Commonwealth way is to seek consensus through consultation and the sharing of experience. It is uniquely placed to serve as a model and as a catalyst for new forms of friendship and co-operation to all in the spirit of the Charter of the United Nations.

4. Its members also share a commitment to certain fundamental principles. These were set out in a Declaration of Commonwealth Principles agreed by our predecessors at their Meeting in Singapore in 1971. Those principles have stood the test of time, and we reaffirm our full and continuing commitment to them today. In particular, no less today than 20 years ago:

- we believe that international peace and order, global economic development and the rule of international law are essential to the security and prosperity of mankind;
- we believe in the liberty of the individual under the law, in equal rights for all citizens regardless of gender, race, colour, creed or political belief, and in the individual's inalienable right to participate by means of free and democratic political processes in framing the society in which he or she lives;
- we recognize racial prejudice and intolerance as a dangerous sickness and a threat to heal thy development, and racial discrimination as an unmitigated evil;
- we oppose all forms of racial oppression, and we are committed to the principles of human dignity and equality;
- we recognize the importance and urgency of economic and social development to satisfy the basic needs and aspirations of the vast majority of the peoples of the world, and seek the progressive removal of the wide disparities in living standards amongst our members.

5. In Harare, our purpose has been to apply those principles in the contemporary situation as the Commonwealth prepares to face the challenges of the 1990s and beyond.

6. Internationally, the world is no longer locked in the iron grip of the Cold War. Totalitarianism is giving way to democracy and justice in many parts of the world. Decolonization is largely complete. Significant changes are at last under way in South Africa. These changes, so desirable and heartening in themselves, present the world and the Commonwealth with new tasks and challenges.

7. In the last twenty years, several Commonwealth countries have made significant progress in economic and social development There is increasing recognition that commitment to market principles and openness to international trade and investment can promote economic progress and improve living standards. Many Commonwealth countries are poor and face acute problems, including excessive population growth, crushing poverty, debt burdens and environmental degradation. More than half our member states are particularly vulnerable because of their very small societies.

8. Only sound and sustainable development can offer these millions the prospect of betterment. Achieving this will require a flow of public and private resources from the developed to the developing world, and domestic and international regimes conducive to the realization of these goals. Development facilitates the task of tackling a range of problems which affect the whole global community such as environmental degradation, the problems of migration and refugees, the fight against communicable diseases, and drug production and trafficking.

9. Having reaffirmed the principles to which the Commonwealth is committed, and reviewed the problems and challenges which the world, and the Commonwealth as part of it, face, we pledge the Commonwealth and our countries to work with renewed vigour, concentrating especially in the following areas:

- the protection and promotion of the fundamental political values of the Commonwealth:
- democracy, democratic processes and institutions which reflect national circumstances, the rule of law and the independence of the judiciary, just and honest government;
- fundamental human rights, including equal rights and opportunities for all citizens regardless of race, colour, creed or political belief;
- equality for women, so that they may exercise their full and equal rights;
- provision of universal access to education for the population of our countries;
- continuing action to bring about the end of apartheid and the establishment of a free,

democratic, non-racial and prosperous South Africa;

- the promotion of sustainable development and the alleviation of poverty in the countries of the Commonwealth through:
- a stable international economic framework within which growth can be achieved;
- sound economic management recognizing the central role of the market economy;
- effective population policies and programmes;
- sound management of technological change;
- the freest possible flow of multilateral trade on terms fair and equitable to all, taking account of the special requirements of developing countries;
- an adequate flow of resources from the developed to developing countries, and action to alleviate the debt burdens of developing countries most in need;
- the development of human resources, in particular through education, training health, culture, sport and programmes for strengthening family and community support, paying special attention to the needs of women, youth and children;
- effective and increasing programmes of bilateral and multilateral co-operation aimed at raising living standards;
- extending the benefits of development within a framework of respect for human rights;
- the protection of the environment through respect for the principles of sustainable development which we enunciated at Langkawi;
- action to combat drug trafficking and abuse and communicable diseases;
- help for small Commonwealth states in tackling their particular economic and security problems;
- support of the United Nations and other international institutions in the world's search for peace, disarmament and effective arms control; and in the promotion of international consensus on major global political, economic and social issues.

10. To give weight and effectiveness to our commitments we intend to focus and improve Commonwealth co-operation in these areas. This would include strengthening the capacity of the Commonwealth to respond to requests from members for assistance in entrenching the practices of democracy, accountable administration and the rule of law.

11. We call on all the intergovernmental institutions of the Commonwealth to seize the opportunities presented by these challenges. We pledge ourselves to assist them to

develop programmes which harness our shared historical, professional, cultural and linguistic heritage and which complement the work of other international and regional organizations.

12 We invite the Commonwealth Parliamentary Association and non-governmental Commonwealth organizations to play their full part in promoting these objectives, in a spirit of co-operation and mutual support.

13. In reaffirming the principles of the Commonwealth and in committing ourselves to pursue them in policy and action in response to the challenges of the 1990s, in areas where we believe that the Commonwealth has a distinctive contribution to offer, we the Heads of Government express our determination to renew and enhance the value and importance of the Commonwealth as an institution which can and should strengthen and enrich the lives not only of its own members and their peoples but also of the wider community of peoples of which they are a part.

Commonwealth Heads of Government Meeting, Harare, 1991

Annex B

The Fancourt Commonwealth Declaration on Globalisation and People-Centred Development

In today's world, no country is untouched by the forces of globalisation. Our destinies are linked together as never before. The challenge is to seize the opportunities opened up by globalisation while minimising its risks.

On the positive side, globalisation is creating unprecedented opportunities for wealth creation and for the betterment of the human condition. Reduced barriers to trade and enhanced capital flows are fuelling economic growth.

The revolution in communications technologies is shrinking the distance between nations, providing new opportunities for the transfer of knowledge and the development of skills-based industries. And technological advance globally offers great potential for the eradication of poverty.

But the benefits of globalisation are not shared equitably. Prosperity remains the preserve of the few. Despite the progress of the past fifty years, half the world's population lives on less than two US dollars per day. Many millions live in conditions of extreme deprivation. The poor are being marginalised. Expanded capital flows have also brought with them the risk of greater financial instability, undermining the hope that a commitment to open markets can lift the developing world, especially the least developed countries, out of poverty and debt.

The persistence of poverty and human deprivation diminishes us all. It also makes global peace and security fragile, limits the growth of markets, and forces millions to migrate in search of a better life. It constitutes a deep and fundamental structural flaw in the world economy.

The greatest challenge therefore facing us today is how to channel the forces of globalisation for the elimination of poverty and the empowerment of human beings to lead fulfilling lives.

The solution does not lie in abandoning a commitment to market principles or in wishing away the powerful forces of technological change. Globalisation is a reality and can only increase in its impact. But if the benefits of globalisation are to be shared more widely ,there must be greater equity for countries in global markets.

We call on all nations fully to implement the Uruguay Round commitments to dismantle barriers to trade for the mutual benefit of all. Moreover, recognising in particular the significant contribution that enhanced export opportunities can make for reducing poverty, we call for improved market access for the exports of all countries, particularly developing countries, and the removal of all barriers to the exports of the least developed countries.

Strong export growth remains a key element in the ability of developing countries to

improve their living standards to the levels enjoyed in the industrialised world. We support efforts that would enable developing countries to build up their skills and manufacturing capacities, including the production and export of value-added goods, so as to enhance growth and achieve prosperity.

Likewise, we urge that the forthcoming Ministerial Meeting of WTO to launch the next round of global negotiations on trade be one with a pronounced developmental dimension, with the aim of achieving better market access in agriculture, industrial products and services in a way that provides benefits to all members, particularly developing countries. The Round should be balanced in process, content and outcome.

We fully believe in the importance of upholding labour standards and protecting the environment. But these must be addressed in an appropriate way that does not, by linking them to trade liberalisation, end up effectively impeding free trade and causing injustice to developing countries.

We also call on the global community to establish innovative mechanisms to promote capital flows to a wider number of countries; and to urgently initiate reform of international financial architecture to minimise financial instability and its impact on the poor.

We believe that the elimination of poverty is achievable – but only if we take determined and concerted action at national and international levels.We reiterate our commitment to work for a reversal of the decline in official development assistance flows. Urgent action is also required to tackle the unsustainable debt burden of developing countries, particularly the poorest, building on the recent initiatives agreed internationally. We believe such development assistance must be focused on human development, poverty reduction and on the development of capacities for participating in expanding world markets for goods and capital. Above all, we recognise the responsibilities of national governments to promote pro-poor policies and human development.

If the poor and the vulnerable are to be at the centre of development, the process must be participatory, in which they have a voice. We believe that the spread of democratic freedoms and good governance, and access to education, training and health care are key to the expansion of human capabilities, and to the banishment of ignorance and prejudice. Recognising that good governance and economic progress are directly linked, we affirm our commitment to the pursuit of greater transparency, accountability, the rule of law and the elimination of corruption in all spheres of public life and in the private sector.

We are concerned at the vast gap between rich and poor in the ability to access the new technologies, a the concentration of the world's research resources in market-driven products and processes, the increasing tendency to claim proprietary rights on traditional knowledge, and at bio-piracy. We call on the world community to use the opportunities offered by globalisation for adopting practical measures for overcoming these challenges; for example, by extending the benefits of global medical research through

the provision of drugs at affordable prices to the poor in developing countries.

We welcome the spread of ideas, information and knowledge in building civil support for social equality, and in opposing all forms of discrimination and other injustices based on ethnicity, gender, race and religion. But, while better communications have increased human contact, there is for some a growing sense of social exclusion and a general failure of moral purpose. Persistence of inequalities faced by women, continued high levels of youth unemployment, lack of adequate support systems for the aged, children and the disabled in many parts of the world and increased threats to the diversity of cultures and beliefs all contribute to the undermining of just and stable society. We therefore call for a renewed commitment to eliminate all forms of discrimination and to take measures that promote respect for the diverse languages, cultures and beliefs, and traditions of the world, which enrich all our lives.

Recognising that the full exploitation of the opportunities for development created by globalisation is not possible without security, political stability and peace, we commit ourselves, in partnership with civil society, to promote processes that help to prevent or resolve conflicts in a peaceful manner, support measures that help to stabilise post-conflict situations, and combat terrorism of all kinds.

Good governance requires inclusive and participatory processes at both national and international levels. We call on the global community to search for inclusive processes of multilateralism which give a more effective voice in the operations of international institutions to developing countries, and which recognise the particular vulnerabilities of small states.

We believe that the Commonwealth, an association of diverse sovereign nations reflecting different stages of development and united by common values, has a vital role to play in promoting consensus at national and international levels and in providing practical assistance for the creation of capacities needed to promote people-centred development. At the threshold of a new millennium, we look to the Commonwealth, and its family of organisations, to contribute significantly to making the above aspirations a reality.

Fancourt, George, South Africa
14 November 1999

Annex C

The Millennium Development Goals

1. **Eradicate Extreme Poverty and Hunger:**
   Target 1a: Halve the proportion of people living on less than a dollar a day.
   Target 1b: Halve the proportion of people suffering from hunger.

2. **Achieve Universal Primary Education:**
   Target 2: Ensure that children everywhere – boys and girls alike – complete a full course of primary education.

3. **Promote Gender Equality and Empower Women:**
   Target 3: Eliminate gender disparities in primary and secondary education, preferably by 2005, and in all levels of education by 2015.

4. **Reduce Child Mortality:**
   Target 4: Reduce infant and under-five mortality rates by two-thirds.

5. **Improve Maternal Health:**
   Target 5: Reduce maternal mortality ratios by three-quarters.

6. **Combat HIV/AIDS, Malaria and Other Diseases:**
   Target 6a: Halt and begin to reverse the spread of HIV/AIDS
   Target 6b: Halt and begin to reverse the incidence of malaria and other major diseases

7. **Ensure Environmental Sustainability:**
   Target 7a: Integrate the principles sustainable development into country policies and programmes and reverse the loss of environmental resources.
   Target 7b: Halve the proportion of people without sustainable safe drinking water.
   Target 7c: Achieve, by 2020, a significant improvement in the lives of at least 100 million slum dwellers.

8. **Develop a Global Partnership for Development.**

Source: UNDP, *Human Development Report 2002: Deepening Democracy in a Fragmented World*, Oxford University Press, 2002

Annex D

What is the Washington Consensus?

The Washington Consensus of market-friendly reforms refers to the following ten policy objectives:

- Fiscal discipline;
- Redirection of public expenditure toward education, health and infrastructure investment;
- Tax reform – broadening the tax base and cutting marginal tax rates;
- Interest rates that are market-determined and positive (but moderate) in real terms;
- Competitive exchange rates;
- Trade liberalisation – replacement of quantitative restrictions with low and uniform tariffs;
- Openness to foreign direct investment;
- Privatisation of state enterprises;
- Deregulation – abolishment of regulations that impede entry or restrict competition, except for those justified on safety, environmental, and consumer protection grounds, and prudential oversight of financial institutions;
- Legal security for property rights.

Source: World Bank, *World Development Report 2000/2001: Attacking Poverty*, World Bank and Oxford University Press, 2001, p. 63

Notes

1 For a description of the Human Development Index, Human Poverty Index and various other indices and indicators published by the UNDP, see *Human Development Report 2002*, pp. 34–7.
2 Table A1.1, *Human Development Report 2002*.
3 *SIPRI Yearbook*, 2002.
4 Sebastian Mallaby, 2002.
5 *SIPRI Yearbook*, 2001.
6 *The Economist*, London, 15 June 2002.
7 Erin Mooney, of the Brookings Institution, CUNY Project on Internal Displacement, New York, in a letter to *The Economist*, London, 22 June 2002.
8 *Financial Times*, 8 May 2002.
9 World Bank, 2002a.
10 'The Prosperity League', *The Economist*, London, 22 June 2002.
11 Centre for Economic Policy Research, 2002, p. 62,
12 R.H. Cassen, 2002.
13 World Bank, 2002a.
14 R.H. Wade, 2001.
15 Ibid.
16 World Bank, 2002c, p. 72.
17 World Bank, 2002b, pp. 146–8.
18 *The Economist*, London, 13 July 2002.
19 *The Times of India*, Hyderabad, ed.,14 July 2002.
20 Przeworski *et al.*, 2000.
21 A. Varshney, 2002.
22 E. Wayne Nafziger and J. Auvinen, 2002.
23 W. Shawcross, 2000.
24 Ibid.
25 Amartya Sen, 1999 and Jean Dreze and Amartya Sen, 2002.
26 Jean Dreze and Amartya Sen, 2002, pp. 347–79.
27 Ibid.
28 UNDP, 2002, Chapter 3.
29 *The Economist*, 30 March 2002.
30 The Commonwealth Secretariat, 1999.
31 E. Wayne Nafziger and J. Auvinen, 2002.
32 Deepali Pant Joshi, reviewing *Voices of the Poor: Crying Out for Change* by Deepa Narayan, Robert Chambers, Meera K. Shah and Patti Petesch, OUP 2000, in *Economic and Political Weekly*, 15 June 12002.
33 Letter to the *Financial Times*, 19 July 2002.
34 UNDP, *Human Development Report 2002*, p. 101.
35 Joseph Stiglitz, 2002, p. 61.
36 World Bank, 2003, p. 72.
37 Deepak Nayyar and Julius Court, 2002.
38 James Wolfensohn, 2002.
39 Percy S. Mistry, 2001.
40 Joseph Stiglitz, 2002; Bimal Jalan, 2002; and Guillermo Ortiz, 2002.
41 *The Economist*, London, 17 August 2002, pp. 20–2.
42 Dreze and Sen, 2002.
43 *The Economist*, London, 17 August 2002, pp. 13–14 and 20–2.
44 Dreze and Sen, 2002, p. 203.
45 Ibid., Chapter 5.
46 Edward Luce, *Financial Times*, 19 August 2002.
47 Commonwealth Secretariat, 2002.
48 Percy S. Mistry, 2001.
49 See 'IMF lends too much, too long says monitor', *Financial Times*, 26 September 2002.
50 *Financial Times*, 2 September 2002.

References

Anderson, C. Leigh, Locker, Laura and Nugent, Rachel (2002). 'Micro-Credit, Social Capital and Common Pool Resources', *World Development*, January.

Bhagwati, Jagdish (2001). *Economic and Political Weekly*, 10 March.

Birdsall, Nancy and Williamson, John (with Brian Deese) (2002). *Delivering on Debt Relief, from IMF Gold to a New Aid Architecture*, Institute for International Economics, Washington DC.

Cassen, R.H. (2002). 'Well-Being in the 1990s: Towards a Balance Sheet', *Economic and Political Weekly*, Mumbai, 6 July.

Centre for Economic Policy Research (2002). 'Making Sense of Globalisation', Paper No. 8, London, July.

Commonwealth Secretariat (1999). *Report of the Commonwealth Expert Group on Good Governance and the Elimination of Corruption in Economic Management*, London.

Commonwealth Secretariat (2002). *A Commonwealth Action Programme for the Digital Divide*, Report of the Commonwealth Expert Group on Information Technology.

De Soto, Hernando (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, Bantam Press.

Dollar, David and Kray, Aart (2002). 'Spreading the Wealth', *Foreign Affairs*, January/February.

Dreze, Jean and Sen, Amartya (2002). *India: Development and Participation*, Oxford University Press.

Jalan, Bimal (2002). 'Coping with Financial Crises', *The Hindu*, 8 July.

Lal, Deepak (1999). *India in the World Economy*, Oxford University Press.

Mallaby, Sebastian (2002). 'The Reluctant Imperialist', *Foreign Affairs*, March/April.

Mistry, Percy S. (2001). 'The United Nations Conference on Financing for Development (UNCFD): Perspectives and Issues for Consideration by the Commonwealth', Paper submitted to Commonwealth Finance Ministers Meeting, Commonwealth Secretariat, September.

Nafziger, Wayne E. and Auvinen, J. (2002). 'Economic Development, Inequality, War and State Violence', *World Development*, February.

Nayyar, Deepak and Court, Julius (2002). *Governing Globalisation: Issues and Institutions*, UNU/WIDER.

Ortiz, Guillermo (2002). 'Solving Debt Crises', *Financial Times*, London, 19 September.

Przeworski, A., Alavarez, M.E., Cheibub, J.A. and Limongi, F. (2000). *Democracy and Development: Political Institutions and Well-Being in the World, 1950–1990*, Cambridge University Press.

Sen, Amartya (1999). *Development as Freedom*, Oxford University Press.

Shawcross, William (2002). *Deliver Us From Evil*, Bloomsbury, London.

SIPRI Yearbook (2001).

SIPRI Yearbook (2002).

Soros, George (2002). *On Globalisation*, Public Affairs Ltd, Oxford.

Stiglitz, Joseph (2002). *Globalization and Its Discontents*, Allen Lane.

UNDP (2002). *Human Development Report 2002: Deepening Democracy in a Fragmented World*, Oxford University Press.

Varshney, A. (2002). *Ethnic Conflict and Civil Life: Hindus and Muslims in India.*

Wade, R.H. (2001). 'Winners and Losers: The Global Distribution of Income Is Becoming More Unequal; That Should be a Matter of Greater Concern than It Is', *The Economist*, London, 28 April.

Wolfensohn, James (2002). 'Ending the Unilateral Approach to Aid', *Financial Times*, London, 26 September

World Bank (1997). *World Development Report 1997*, World Bank and Oxford University Press.

World Bank (2001). *World Development Report 2000/01: Attacking Poverty*, World Bank and Oxford University Press.

World Bank (2002a). *Globalisation, Growth, and Poverty*, World Bank and Oxford University Press.

World Bank (2002b). *World Development Report 2002: Building Institutions for Markets*, World Bank and Oxford University Press.

World Bank (2002c). *World Development Report 2003: Sustainable Development in a Dynamic World*, World Bank and Oxford University Press.

The Commonwealth Expert Group on Democracy and Development was established by the Commonwealth Secretary-General in pursuance of the following mandate by Commonwealth Heads of Government at their meeting in Coolum, Australia, in March 2002:

"Recognising the links between democracy and good governance on the one hand, and poverty, development and conflict on the other, we call on the Commonwealth Secretary-General to constitute a high-level expert group to recommend ways in which we could carry forward the Fancourt Declaration. This group should focus on how democracies might best be supported in combating poverty, and should report to the next CHOGM [i.e. Commonwealth Heads of Government Meeting]."

The Group was chaired by the Hon Dr Manmohan Singh, the current Prime Minister of India.

This paper was written as a background note for the Expert Group (immediately prior to the first meeting) and as such it was very important in clarifying some of the major themes which were discussed in the deliberations of the Group.

The note is in four parts: Part A reviews the extent of poverty and outlines some of the particular challenges confronting democracies in the current historical situation. Part B discusses the links between conflict, poverty and development on the one hand and democracy and good governance on the other, and possible ways by which support may be provided to democracies in combating poverty. Part C discusses possible strategies for winning global support, and the role of the Commonwealth in mobilising such support. Part D provides a summary of issues for the consideration of the Expert Group.

Dr Rao is an eminent economist who worked for both the Indian Government and Commonwealth Secretariat for many years. He is now the Principal of the Administrative Staff College of India in Hyderabad.

ISBN 978-1-84859-848-5

9 781848 598485

Commonwealth Secretariat